E-L Financial Corporation Limited

2007 Annual Report

The Year at a Glance

39th Annual Report	2007	2006
Total Premiums	**$ 1,630,208,000**	$ 1,628,870,000
Total Revenues	**2,162,946,000**	2,320,794,000
Net Operating Income (1)	**91,717,000**	141,093,000
Net Income	**210,688,000**	372,520,000
Total Assets (including segregated funds)	**12,835,288,000**	11,206,412,000
Shareholders' Equity:		
Beginning	**2,397,721,000**	1,915,670,000
Impact of change in accounting standards	**233,566,000**	—
Comprehensive income:		
Net income	**210,688,000**	372,520,000
Other comprehensive loss	**(128,828,000)**	—
	81,860,000	372,520,000
Dividends	**(12,060,000)**	(8,497,000)
Changes in capital stock	**—**	121,501,000
Other	**(641,000)**	(3,473,000)
Ending	**2,700,446,000**	2,397,721,000
Per Share Information:		
Net Operating Income (1)	**24.54**	40.44
Net Income		
- basic	**60.29**	109.97
- diluted	**57.37**	104.21
Comprehensive Income (1)	**21.58**	—

(1) See Management's Discussion and Analysis for use of non-GAAP measures

ANNUAL MEETING OF SHAREHOLDERS

The Annual Meeting of Shareholders will be held at 11:45 a.m. on Monday, May 5, 2008, in the Meeting Room of The Dominion of Canada General Insurance Company, 4th Floor, 165 University Avenue, Toronto. All shareholders are invited to attend.

Board of Directors

J. Christopher Barron,
Corporate Director

James F. Billett,
President, J.F. Billett Holdings Ltd.

George L. Cooke, LL.D.,
President and Chief Executive Officer, The Dominion of Canada General Insurance Company

William J. Corcoran, LL.B.,
Vice-Chairman, Jarislowsky Fraser Limited

Douglas G. Hogeboom, F.S.A., F.C.I.A.,
President and Chief Executive Officer, The Empire Life Insurance Company

Duncan N.R. Jackman,
Chairman, President and Chief Executive Officer, E-L Financial Corporation Limited

The Honourable Henry N.R. Jackman,
Honorary Chairman, The Empire Life Insurance Company

Mark M. Taylor,
Executive Vice-President and Chief Financial Officer, E-L Financial Corporation Limited

Douglas C. Townsend, F.S.A., F.C.I.A.,
President, Townsend Actuarial Consulting Ltd.

Officers

Chairman, President and Chief Executive Officer
Duncan N.R. Jackman

Executive Vice-Presidents
George L. Cooke
Douglas G. Hogeboom
Mark M. Taylor

Vice-President, General Counsel and Secretary
Richard B. Carty

Treasurer
Travis R. Epp

Management's Discussion and Analysis
Report on E-L Financial Corporation Limited

This document has been prepared for the purpose of providing Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations for the years ended December 31, 2007 and 2006. This MD&A should be read in conjunction with the Company's December 31, 2007 year-end consolidated financial statements, which form part of the E-L Financial Corporation Limited 2007 Annual Report dated March 4, 2008. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and unless otherwise noted, the reporting currency for the Company is the Canadian dollar, and all amounts in the consolidated financial statements and this MD&A are in Canadian dollars.

This MD&A contains certain forward-looking statements that are subject to risks and uncertainties that may cause the results or events mentioned in this discussion to differ materially from actual results or events. No assurance can be given that results, performance or achievement expressed in, or implied by, forward-looking statements within this disclosure will occur, or if they do, that any benefits may be derived from them. All per share amounts are based on the number of Common Shares outstanding at December 31, 2007, adjusted for the Company's proportionate interest in its own shares.

Additional information relating to the Company, including its Annual Information Form, may be found at www.sedar.com.

Use of non-GAAP measures

MD&A contains reference to net operating income, net operating income per share and comprehensive income per share. These terms do not have any standardized meaning according to GAAP and therefore may not be comparable to similar measures presented by other companies. The Company believes that these measures provide information useful to its shareholders in evaluating the Company's financial results. Net operating income excludes realized gain on available for sale investments of $133.6 million (2006 – nil), loss from equity method investment of $14.6 million (2006 – income of $48.9 million), amortization of investment gains of $25.6 million in 2006, gain on sale of investments of $59.8 million in 2006 and change in unrealized appreciation of portfolio investments of $97.2 million in 2006, all net of tax. Net operating income per share is net operating income divided by the average number of Common Shares outstanding. Comprehensive income per share is comprehensive income divided by the average number of Common Shares outstanding.

The Company

E-L Financial Corporation Limited (the "Company" or "E-L Financial") operates as an investment and insurance holding company. The Company owns 100% of The Dominion of Canada General Insurance Company ("The Dominion") and 80% of The Empire Life Insurance Company ("Empire" or "Empire Life"). The Company also owns investments in equities and fixed income securities directly, and indirectly, through pooled funds, closed-end investment companies and other investment companies ("Corporate Investments").

The Company's strategy is to accumulate shareholder value through long-term capital appreciation and dividend income from its investments. E-L Financial manages its investments through representation on the boards of directors of the two insurance subsidiaries and the other investment companies in which the Company has shareholdings.

Accounting policy changes

Effective January 1, 2007, the Company adopted the provisions of the new Financial Instruments accounting standards (CICA Handbook Sections 3855 *Financial Instruments – Recognition and Measurement*, 3865 *Hedges* and 1530 *Comprehensive Income*) and Section 4211 *Life Insurance Enterprises – Specific Items*. The Company has also elected to early adopt Section 3862 *Financial Instruments – Disclosures* and Section 3863 *Financial Instruments – Presentation*. These standards are required to be adopted without restatement of prior periods. The adoption of these accounting standards resulted in an increase

to retained earnings of $76.4 million and the establishment of accumulated other comprehensive income of $157.2 million as at January 1, 2007. As a result of the adoption of these standards, shareholders' equity increased from $2,397.7 million to $2,631.3 million as at January 1, 2007. For a further description of the principal changes in accounting for financial instruments due to the adoption of the accounting standards, see Note 2 to the consolidated financial statements.

Overview of results

The consolidated financial statements that follow include E-L Financial's share in the results and financial position of the two insurance subsidiaries and the Company's Corporate Investments. Additional information is provided in the notes to the consolidated financial statements and the five year summary of results on pages 66 to 68.

For the year ended December 31, 2007, net operating income totalled $91.7 million or $24.54 per share compared with $141.1 million or $40.44 per share for the previous year.

Net income for 2007 was $210.7 million or $60.29 per share compared with $372.5 million or $109.97 per share in 2006.

Corporate Investments net income decreased due to the adoption of the new Financial Instruments standards and the loss from the equity method investment. Due to the change in accounting policies, the majority of the portfolio investments are no longer carried at fair value with changes in unrealized appreciation recorded in the consolidated statements of income. The Company's equity method investment, United Corporations Limited ("United"), declined in value in 2007 after a number of years of strong performance.

General Insurance net income decreased reflecting lower underwriting results, partially offset by higher investment gains and investment income. The underwriting loss in 2007 resulted from declining average earned premiums and rising claims costs.

Life Insurance net income declined slightly in 2007 relative to 2006 due to reduced overall net income from Empire's three product lines (Wealth Management, Employee Benefits and Individual Insurance). The reduction in overall earnings from the three product lines was mainly a consequence of increased new business strain and less favourable experience gains in the Individual Insurance product line. These were partially offset by the additional profits that resulted from a larger in-force base in all three product lines.

The following table summarizes the results of the Company's business segments:

	Corporate Investments		General Insurance		Life Insurance		Total	
(millions of dollars)	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
Net income:								
Operating income	**$ 25**	$ 17	**$ 45**	$ 104	**$ 22**	$ 20	**$ 92**	$ 141
Amortization of investment gains	**—**	—	**—**	—	**—**	26	**—**	26
Realized gain on available for sale investments	**12**	—	**100**	—	**22**	—	**134**	—
Gain on sale of investments	**—**	14	**—**	46	**—**	—	**—**	60
Income (loss) from equity method investment	**(15)**	49	**—**	—	**—**	—	**(15)**	49
Change in unrealized appreciation of portfolio investments	**—**	97	**—**	—	**—**	—	**—**	97
	$ 22	$ 177	**$ 145**	$ 150	**$ 44**	$ 46	**$ 211**	$ 373

Comprehensive income

Comprehensive income combines net operating income and other comprehensive income/loss ("OCI" or "OCL") for the year. Upon adoption of the new Financial Instruments accounting standards, the change in fair value of assets classified as available for sale ("AFS"), with a quoted price in an active market, is recorded in OCI. When gains or losses are realized on these assets, the gains or losses are reclassified out of OCI into net income. The change in fair value of AFS assets without a quoted price in an active market are not permitted to be recognized until realized and accordingly, are not reflected in OCI. For the year, Corporate Investments experienced an OCI of $0.4 million. Including an OCL of $110.6 million for the General Insurance operation and OCL of $18.6 million from the Life Insurance operation, the Company recorded a consolidated OCL of $128.8 million. The General Insurance operation's OCL of $110.6 million was mainly the result of the realization of long-term accumulated net gains of $102.7 million. When the consolidated OCL of $128.8 is combined with consolidated net income $210.7 million, the consolidated comprehensive income recorded for the year was $81.9 million.

Corporate Investments

The Corporate Investments portfolio includes Canadian and foreign investments. As a result of the Company's exposure to investment opportunities all over the world, its performance will be affected by the global equity markets and currency fluctuations. Previously, unrealized appreciation on these investments was recognized in the consolidated statements of income. As a result of the adoption of the new Financial Instruments accounting standards, the unrealized appreciation on investments classified as AFS without a quoted price in an active market is not reflected in these financial statements. Unrealized appreciation on the remaining portion of the AFS is now reflected in the statement of comprehensive income. Canadian equity markets were positive in 2007. In Canadian dollar terms, global markets generally performed negatively due to the strong appreciation of the Canadian dollar in the current year.

The Company recorded a loss of $20 million in 2007 on United, its equity method investment, compared to income of $57 million in 2006. During 2007, the Company invested an additional $2.3 million in United. The objective of United, a publicly listed closed-end investment company, is to provide its shareholders with an above average total rate of return through long-term capital appreciation and dividend income from United's portfolio of equity investments.

The Company's portfolio investments include $520 million (2006 - $520 million) of investments in entities that can be significantly influenced by a party that can significantly influence the Company. In management's view, investments in these companies are consistent with the investment strategy and contribute to achieving the investment objective of the Company. Included in investment and other income in the consolidated statements of income are cash dividends from these companies amounting to $10.7 million (2006 - $8.4 million).

The Company does not hold any non-bank Asset Backed Commercial Paper ("ABCP") and consequently anticipates no direct impact from these investments on its future financial condition.

From time to time, the Company places a portion of its portfolio with investment managers. The Company selects managers whose investment strategies align with the Company's strategy of long-term capital appreciation. During 2007, the Company invested an additional $50 million in equities. These investments were funded by the dividends received from The Dominion and Empire Life.

All Corporate Investments have market risk as they are subject to volatility and present a risk of capital loss. Market risk also includes foreign currency, interest rate, liquidity and credit risks. The management and the Board of the Company review the Corporate Investments on a quarterly basis.

Critical accounting estimates

The Company's significant accounting policies are described in Note 3 to the consolidated financial statements. Certain of these policies require management to make estimates and assumptions about matters that

are inherently uncertain. The most critical of these estimation processes for Corporate Investments is the determination of allowances for impaired investments.

Available for sale securities are subject to a regular review for losses that are other than temporary. If a security is assessed to have a loss that is other than temporary, the security is written down to fair value in the consolidated statements of income. Factors considered in determining whether a loss is temporary include the length of time and extent to which fair value has been below cost, the financial conditions and near-term prospects of the issuer and the ability and intent to hold the investment for a period of time sufficient to allow for recovery.

Liquidity and capital resources

Liquidity refers to the Company's ability to maintain cash flow adequate to fund operations as well as to provide resources for additional investments.

The Company's corporate obligations, primarily dividend payments on its outstanding Common and Preference Shares, are funded by cash flows arising from its equity and fixed income portfolio as well as dividends from its subsidiaries. The per share dividend amounts declared during the year were as follows: Common Shares ($0.50), Series A Convertible Preference Shares ($0.50), First Preference Shares, Series 1 ($1.325) and First Preference Shares, Series 2 ($1.1875). Excess cash flows are invested in additional investments as appropriate opportunities become available.

Composition of consolidated cash flows:

	Corporate Investments		General Insurance		Life Insurance		Total	
(millions of dollars)	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
Cash flows from:								
Operating activities	**$ 17**	$ 18	**$ 119**	$ 151	**$ 53**	$ 86	**$ 189**	$ 255
Financing activities								
-preference share issue	**—**	97	**—**	—	**—**	—	**—**	97
-cash dividends	**(12)**	(8)	**—**	—	**—**	—	**(12)**	(8)
Investing activities	**(63)**	(142)	**(9)**	(190)	**20**	(105)	**(52)**	(437)
Increase (decrease) in cash and cash equivalents	**$ (58)**	$ (35)	**$ 110**	$ (39)	**$ 73**	$ (19)	**$ 125**	$ (93)

The Company's insurance subsidiaries meet their cash requirements primarily through funds generated by insurance operations. Each insurance subsidiary carries sufficient excess capital to provide for additional cash requirements in the event of reasonably possible adverse claims experience or investment results. The Company receives dividends from its insurance subsidiaries. Such dividends are subject to restrictions imposed by the *Insurance Companies Act, Canada* to ensure that sufficient excess capital remains on hand to fulfill policyholder obligations. Each of the insurance subsidiaries paid dividends that were less than the maximum permitted by federal legislation.

Dividends received by the Company from its insurance subsidiaries:

(millions of dollars)	**2007**	2006
The Dominion	**$ 60**	$ 40
Empire	**9**	—
Total	**$ 69**	$ 40

The Company's corporate operating cash flows consist of net investment income from its Corporate Investments of $17 million (2006 - $18 million) and cash dividends received from its insurance subsidiaries of $69 million (2006 - $40 million). These cash flows, net of dividend payments made on the Company's Common and Preference Shares of $12 million (2006 - $8 million), made available $74 million (2006 - $50 million) for investment opportunities in 2007. The Company's Corporate Investments liquidity position remains strong with $25.1 million in cash and cash equivalents at December 31, 2007 (2006 - $14.4 million).

Selected annual information

A summary of various financial data for each of the last three years is as follows:

(millions of dollars, except per share amounts)

	2007	2006	2005
Revenue			
Corporate Investments	**$ 30**	$ 224	$ 222
General Insurance	**1,215**	1,174	1,168
Life Insurance	**918**	923	811
	$ 2,163	$ 2,321	$ 2,201
Net income			
Corporate Investments	**$ 22**	$ 177	$ 131
General Insurance	**145**	150	139
Life Insurance	**44**	46	24
	$ 211	$ 373	$ 294
Assets			
Corporate Investments	**$ 1,435**	$ 1,373	$ 1,375
General Insurance	**2,817**	2,630	2,516
Life Insurance - general fund	**3,989**	3,355	3,064
- segregated funds	**4,594**	3,848	2,876
Total assets, including segregated funds	**$ 12,835**	$ 11,206	$ 9,831
Per Common Share			
Net income - basic	**$ 60.29**	$ 109.97	$ 86.68
- diluted	**$ 57.37**	$ 104.21	$ 80.43
Cash dividends	**$ 0.60**	$ 0.60	$ 0.60

Revenue

The revenue of the Company decreased by 6.8% in 2007 compared to an increase of 5.4% in 2006. The decline in revenue in 2007 was derived from two factors in the Corporate Investments segment. First, due to the accounting policy changes effective in 2007, the change in unrealized appreciation of portfolio investments is no longer recorded in the consolidated statements of income, whereas in 2006, a change in unrealized appreciation of portfolio investments of $125 million was included. Secondly, the Company recorded a loss of $20 million in 2007 on United, its equity method investment, compared to income of $57 million in 2006. United's investment portfolio of global equities was adversely impacted by the significant appreciation of the Canadian dollar in 2007. Revenue from the General Insurance operation increased in both 2007 and 2006 as a result of increasing investment income and gains, which more than offset a decline in earned premiums. The Life Insurance operation's revenue decreased slightly despite continuing growth in premium revenue. The decline was due to the negative fair value change in financial assets that resulted in part from a rise in market interest sales since the beginning of the year.

Net income

The net income of the Company declined in 2007 after significant increases in 2006 and 2005. The reduction in net income in 2007 is mainly due to Corporate Investments. Corporate Investments net income is directly related to its revenue, which declined significantly as previously discussed. In 2006 and 2005, the positive performance of global equity markets, combined with strong stock selection, increased the net income in Corporate Investments. The net income of both the General Insurance operations and Life Insurance operations declined slightly in 2007 after increasing in 2006. The underwriting income earned by the General Insurance operation peaked in 2005, the tail end of the recent "hard market" of healthy premium levels and low claims frequency. Underwriting income declined in 2006 and became an underwriting loss in 2007 as a result of declining earned premiums and rising claims costs. Investment income and gains increased in both 2007 and 2006. The overall net income from the Life Insurance operation's three product lines decreased in 2007 after positive results in 2006. The net income from Capital and Surplus was relatively unchanged from 2006. The change to Financial Instruments accounting adopted in 2007 has impacted the comparability of Capital and Surplus earnings. Under previous accounting rules, realized and unrealized gains and losses on equities in the Capital and Surplus account of Empire Life were amortized to income at a quarterly rate of 5%, which tended to smooth the impact of fluctuations in stock market returns. With the new accounting standards adopted in 2007, all realized gains and losses on these equities are recorded on the consolidated statements of income and unrealized gains and losses are recorded as other comprehensive income in the consolidated statement of comprehensive income.

Assets

Total assets of the Company have increased in each of the last three years. The adoption of the new Financial Instrument accounting standards impacted each of the Company's segments as most financial assets are now recorded at fair value on and after January 1, 2007. A summary of the change in asset values recorded as a result of the new accounting standards is provided in Note 2. Net of the change recorded on January 1, 2007, the increase in the assets of the Corporate Investments segment in 2007 mainly reflects the reinvestment of dividends received from insurance subsidiaries. The changes in Corporate Investment's assets in prior years reflect strong equity markets and the $100 million Preference Share offering in 2006. The total assets of the General Insurance operations, net of the change in accounting standards, have increased in recent years as a result of reinvesting retained earnings. Total assets under administration of the Life Insurance operations grew during 2007, reaching $8.4 billion. Segregated fund assets were up 19% due primarily to positive net sales results throughout the year. General fund assets also increased by 3%, net of the change in accounting standards, primarily due to continued growth in the Individual Insurance product line.

Summary of quarterly results

The following table summarizes various financial results on a quarterly basis for the current and prior year:

(millions of dollars, except per share amounts)

	March 31		June 30		September 30		December 31		Total	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
Revenue	**$ 513**	$ 576	**$ 415**	$ 452	**$ 512**	$ 572	**$ 723**	$ 721	**$2,163**	$ 2,321
Net income	**$ 31**	$ 88	**$ 53**	$ 21	**$ 20**	$ 78	**$ 107**	$ 186	**$ 211**	$ 373
Net income per share										
- basic	**$ 8.43**	$26.15	**$15.30**	$ 5.87	**$ 5.34**	$22.94	**$31.22**	$55.01	**$60.29**	$109.97
- diluted	**$ 8.32**	$24.97	**$14.55**	$ 5.16	**$ 5.34**	$21.58	**$28.97**	$52.50	**$57.37**	$104.21

The net income of the Company is expected to fluctuate on a quarterly basis given its various segments. In particular, equity market movements, changes in interest rates and the discount rate, as well as related reserve adjustments are likely to cause fluctuations. On an annualized basis, domestic equity markets have been positive in each of the last three years. However, the quarterly returns have been volatile. For example, in 2006, the first and fourth quarters were exceptionally strong. In contrast, the second quarter of 2006 and the fourth quarter of 2007 had negative returns. As the Corporate Investment portfolio is comprised of equity investments, its performance will tend to reflect the equity market movements. As it is exposed to global equities, the Corporate Investment portfolio will also be impacted by movements in the Canadian dollar which has strengthened significantly in recent years, although it has also been subject to volatility.

The Dominion's quarterly income will also fluctuate based on claims experience, frequency of claims, changes in claims discount rate and the timing of realized investment gains. The Dominion's net income in the second quarter of 2006 benefited from lower than normal weather-related claims, as well as from reductions in prior years claims provisions on its share of Facility Association automobile insurance business. In contrast, in the first quarter of 2007, The Dominion's results were adversely impacted by a high number of large property losses, a higher frequency of weather-related claims and a general increase in automobile claims frequency. Additionally, The Dominion's quarterly net income was increased by the realization of significant gains in the fourth quarters of 2006 and 2007.

Share data

There are 4,019,409 Common Shares and 258 Series A Convertible Preference Shares issued and outstanding and each share is entitled to one vote. In addition, there are 4,000,000 First Preference Shares, Series 1 and 4,000,000 First Preference Shares, Series 2 issued and outstanding, which are non-voting.

Disclosure controls and procedures

The Company's disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by the Company is recorded, processed, summarized and reported within the time periods specified under Canadian securities laws, and include controls and procedures that are designed to ensure that information is accumulated and communicated to management on a timely basis to allow appropriate decisions regarding public disclosure. As of December 31, 2007, an evaluation was carried out, under the supervision of and with the participation of management, of the effectiveness of the Company's disclosure controls and procedures as defined under Multilateral Instrument 52-109. Based on that evaluation, management concluded that the design and operation of the Company's disclosure controls and procedures were effective as at December 31, 2007.

Internal control over financial reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. Management assessed the design effectiveness of the Company's internal control over financial reporting as at December 31, 2007, and based on that assessment determined that the Company's internal control over financial reporting design was effective. No changes were made in the Company's internal control over financial reporting during the quarter ended December 31, 2007, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Outlook

The Company's future earning prospects are dependant on the successful management of its Corporate Investments portfolio and on the continued profitability of the two insurance company subsidiaries. The performance of the Corporate Investments portfolio is impacted by global securities markets and the selection of equity and fixed income investments. More information on the outlook for the insurance subsidiaries is provided in the Outlook sections of each of the insurance operation's reports in the MD&A.

Report on General Insurance Operations

The Dominion of Canada General Insurance Company ("The Dominion") is a wholly owned subsidiary of E-L Financial and is licensed to underwrite property and casualty ("P&C") insurance in all jurisdictions in Canada.

Overview

The Dominion's net income for 2007 was $144.6 million compared to $149.5 million in the prior year. Return on average equity (net income divided by average shareholder's equity) was 18.9% in 2007 compared to 22.3% in 2006. The decrease in 2007 net income reflects a reduction in underwriting income, partly offset by higher realized investment gains and investment income, compared to 2006. Underwriting results, at a combined ratio (total expenses divided by net premiums earned) of 102.9 in 2007, deteriorated 9.4 points from 93.5 in 2006 as a result of increases in claims severity and frequency and declining average earned premiums. Realized investment gains after tax were $99.5 million in 2007, compared to $45.6 million in 2006.

Adoption of the new Financial Instruments accounting standards, resulted in adjustments to the opening balance sheet of The Dominion as explained in Note 2 to the consolidated financial statements. Excluding the opening adjustments, the carrying value of cash and investments increased $42.3 million in 2007 (increased $178.5 million including the opening adjustment). The increase in cash and investments in 2007 was generated from positive operating cash flow of $119.0 million ($150.9 million in 2006), reduced by $68.9 million used for investing and payment of dividends ($229.9 million in 2006). Excluding the opening adjustment, total assets increased $73.4 million to $2.8 billion at the end of 2007 (an increase of $187.7 million including the adjustment).

Net income for the fourth quarter was $75.3 million compared to $50.2 million in 2006. The increase versus last year reflects higher realized investment gains of $64.9 million after tax (versus $23.8 million in the prior year fourth quarter), partly offset by lower underwriting income. The combined ratio for the fourth quarter of 2007 was 102.9, compared to 94.0 in the fourth quarter of 2006. The decrease in underwriting income reflects higher claims severity and frequency and a decline in earned average premiums in the fourth quarter of 2007 compared to the fourth quarter of 2006.

Page 67 provides an overview of financial results and position for the five-year period from 2003 to 2007.

Report on General Insurance Operations (cont'd)

Analysis of financial results and condition

The following table and commentary analyze The Dominion's financial results for 2007 and 2006:

	Automobile		Personal Property		Commercial Property & Casualty		Total	
(millions of dollars)	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
Gross premiums written	**$ 633**	$ 650	**$ 201**	$ 202	**$ 205**	$ 207	**$1,039**	$1,059
Growth rate %	**(2.5)**	(1.6)	**(0.6)**	(4.7)	**(0.9)**	(0.7)	**(1.8)**	(2.0)
Mix of business %	**61**	61	**19**	19	**20**	20	**100**	100
Loss ratio %	**74.8**	68.2	**73.0**	66.3	**58.8**	39.6	**71.5**	62.7
Revenue								
Net premiums earned							**$ 999**	$1,027
Premium finance fee							**13**	14
Investment income							**83**	77
Realized gain on investments							**120**	56
							1,215	1,174
Expenses								
Claims expense							**715**	644
Other expenses, including premium taxes							**313**	316
Income taxes							**42**	64
							1,070	1,024
Net income							**$ 145**	$ 150

The Dominion underwrites standard general insurance products concentrated in four geographic areas. The geographic mix of premiums in 2007 is largely unchanged from the prior year and is as follows: Ontario 69%, Western region 14%, Atlantic provinces 11% and Pacific region 6%. Product mix is fairly consistent across the regions, except that the Pacific region's business is mostly property and casualty, due to the government monopoly on most automobile business in British Columbia. The loss ratio (claims divided by net premiums earned) is a key indicator of underwriting performance and management monitors loss ratios by product line.

Total gross premiums written decreased by 1.8% in 2007 (decrease of 2.0% in 2006) consisting of a 1.2% increase in policies written (3.5% decrease in 2006), a 1.3% decrease in average premiums (0.5% increase in 2006) and a 1.7% decrease from Facility Association (or "Facility ") premiums (1.0% increase in 2006). Average premiums decreased for all major lines in 2007. Within the automobile line, personal average premiums written were relatively flat while a decrease in commercial average premiums drove an overall decline for automobile.

The 1.2% increase in 2007 policies written reflects the net effect of a 2.4% decrease due to cancellations of competitor-controlled brokers and 3.6% growth with existing and newly appointed brokers. As reported in the last two years' annual MD&As, The Dominion has terminated relationships with brokers that become owned or controlled by its competitors. The Dominion confirmed its strategy to distribute solely through independent brokers who work in the best interests of their customers, free of conflict, by providing independent advice, personalized service and a competitive choice of products, pricing, service and financial strength from multiple insurers. A further decrease in premiums written of 1.1% is expected in 2008 from terminations known to date. Management anticipates that competitors will continue to attempt to purchase brokers, but does not expect the effect on The Dominion's overall volume to be significant in the mid-term.

Net premiums earned reflects the earning of written premiums on a straight-line basis over the terms of the individual policies. Approximately half of the premiums written in a calendar year are earned in that year and the rest are deferred as unearned premium, to be earned in the following year.

The increase in the total loss ratio reflects an increase in average frequency and severity, despite higher favourable development in 2007 versus the prior year.

Automobile

Gross premiums written for automobile declined 2.5% in 2007 (decrease of 1.6% in 2006) consisting of a 0.9% decrease in average premiums (0.8% decrease in 2006) and a 1.3% increase in policies written (2.3% decrease in 2006), offset by a 2.9% decrease from Facility Association premiums (1.5% increase in 2006). The decrease in average premiums reflects the impact of price competition in commercial automobile insurance. The increase in policies written reflects growth with existing and newly appointed brokers of 3.9% (5.0% increase in 2006), partly offset by a 2.6% decrease from cancelled competitor-controlled brokers (7.3% decrease in 2006).

Facility Association is a mandatory insurance pool that is funded by all private automobile insurers to provide insurance to drivers who cannot obtain coverage from private insurers. Facility also operates risk sharing pools ("RSP") in some provinces into which insurers may transfer qualifying policies which they have issued directly. Each insurer services its RSP policies and settles any claims but the financial results are combined in the risk sharing pools. Facility determines the results of its operations based on its own actuarial valuations and allocates its results to private insurers, mainly based on market share. Insurers rely on Facility's reports in recording their share of Facility results. Given the nature of Facility's business, its results are volatile and can have a material effect on The Dominion's net income.

The 6.6 point deterioration in the 2007 automobile loss ratio is mostly due to increases in both claims frequency (relative number of claims) and claims severity (average cost per claim). Other factors include declining average earned premiums and an increase in the Facility Association's loss ratio, compared to the prior year. Favourable development on prior year claims provisions was higher in 2007 which decreased the loss ratio by 3.3 points compared to the favourable development included in 2006, partly mitigating the net deterioration. Prior year development reduced automobile claims expense by $32.1 million (5.4 points on The Dominion's loss ratio, excluding Facility Association business) in 2007 compared to a reduction of $12.5 million (2.1 points) in 2006. The favourable development in 2007 reflects better than expected experience primarily relating to accident benefit claims (our party's injury benefits) and third-party bodily injury claims (paid to parties injured by The Dominion's at-fault policyholders) for claims arising in accident years 2001 to 2006. The favourable development recognized in 2006 relates mainly to reduced estimates for third party bodily injury claims mainly occurring in 2005. Management expects that claims costs will continue to rise faster than earned premiums, resulting in a higher loss ratio in 2008.

Subsequent to year end, the Alberta provincial court struck down the cap on claims for minor auto injuries that the province implemented in 2004. The cap had been an effective control on claims costs and has been relied upon by insurers in their reserving and pricing. The effect of the court's decision is to increase the amount payable for a large number of claims by a potentially material amount in aggregate. However, without the cap, a return to the instability and high rates that characterized the industry prior to 2004 is inevitable. Consequently, management expects that legal or public policy measures will have to be taken to restore stability and affordability to the Alberta market. The government of Alberta already has announced its intention to appeal the decision. Management believes that the ultimate outcome of the court's decision will not result in a material change to The Dominion's provision for unpaid and unrecorded claims.

Personal property

Personal property premiums decreased 0.6% in 2007 (decrease of 4.7% in 2006) consisting of a 0.9% decrease in average premium (0.5% increase in 2006), and a 0.3% increase in policies written (decrease of 5.2% in 2006). The decrease in average premiums reflects soft market rate competition. The increase in written policies consists of an increase of 2.4% from growth with existing brokers and a 2.1% reduction from cancelled competitor-controlled brokers.

The 6.7 point deterioration in the 2007 loss ratio reflects an increase in claims severity and declining earned premiums, partly offset by a 4.6 point reduction as a result of favourable development recognized in 2007 in contrast with unfavourable development recognized in 2006. Prior year favourable development reduced personal property claims expense by $4.3 million (2.3 points) in 2007 compared to an increase in claims expense in 2006 from unfavourable development of $4.4 million (2.3 points). Favourable development in 2007 reflects better than expected experience from various accident years. The 2006 development was mainly driven by higher than expected personal liability claims on homeowners' policies of recent years.

Commercial property and casualty

Commercial coverages are generally sold together in package policies. The Dominion's commercial business is typically main-line small to mid-sized exposures and on the conservative end of the risk spectrum. Gross premiums written declined by 0.9% (decrease of 0.7% in 2006) consisting of an average premium decrease of 8.0% (decrease of 2.6% in 2006), partly offset by an increase in policies written of 7.1% (increase of 1.9% in 2006). Continued soft market competition drove the decrease in average premiums. Policies increased 9.2% from growth with existing brokers and decreased 2.1% from cancellations of competitor-controlled brokers.

The 19.2 point increase in the loss ratio in 2007 is due to an unusually high number of large losses (concentrated in the first quarter), increased frequency and severity and a decrease in favourable development compared to the prior year. Favourable development of $18.0 million (9.9 points) recognized in 2007 arose partly from better than expected experience on property and general liability claims occurring in various recent years and partly from further positive developments related to the claims that accounted for most of the favourable development recognized in 2006. Favourable development of $22.8 million (reduction of 12.4 points) recognized in 2006 was mainly derived from reduced estimates for sexual abuse claims arising from 1959 to 1967. During 2006, court sanctioned settlements reached between the federal government and victims of sexual abuse at residential schools reduced the associated claims estimates.

Expenses

Broker commissions and premium taxes comprise approximately two thirds of expenses and vary directly with premiums. The remaining third, operating expenses, mainly consists of salaries and benefits and information technology costs. The expense ratio (the sum of commissions, operating expenses and premium taxes, divided by net premiums earned) is a useful metric for analyzing delivery costs. The industry's expense ratio tends to decrease when average premiums are increasing and vice versa. Included in commissions are contingent profit bonuses which are earned by brokers, based on the profitability of their business to The Dominion, and which can produce variation in annual expense ratios. The Dominion's expense ratio increased in 2007 by 0.6 points to 31.4, from 30.8 in 2006, due mainly to a decrease in earned premiums, an increase in technology development costs and annual salary increases. Contingent profit bonuses were lower in 2007, as a result of reduced underwriting profit.

Investments, liquidity and capital resources

Investment income (interest and dividends) before income tax was $82.6 million in 2007, compared to $77.6 million in 2006 as a result of an increase in portfolio size. The average of cash and investments (measured at cost or amortized cost) grew 8.3% in 2007 (12.4% increase in 2006) as a result of positive cash flow from operations. The average investment yield on an amortized cost basis remained relatively unchanged at 3.8%.

Realized gains before taxes were $120.5 million in 2007, compared to $55.9 million in 2006. Realized investment gains and losses result from trading decisions which are intended to maximize the ongoing economic return of The Dominion's portfolios and, accordingly, do not follow a predictable pattern from year to year. The Dominion's exposure to common shares consists of units in pooled funds of third party investment managers. In addition to the gain distributions received in the normal course on the mutual fund units, the 2007 gains included $69.5 million in the fourth quarter which resulted from redeeming some of the mutual fund units. The redemption proceeds were invested in other mutual funds managed by the same third party manager. The shift between funds did not change The Dominion's overall exposure to units or its Canadian/foreign mix which remains at approximately 50/50, consistent with the prior year.

During 2007 and to the date of this report, The Dominion has not held any non-bank asset backed commercial paper and consequently anticipates no direct impact from these investments on its future financial condition.

For a P&C insurer, adequate liquidity means generating sufficient cash and investments to fund policy liabilities and managing the asset maturity profile and the ability to sell investments, in order to pay liabilities as they come due. Positive cash flow from operations remained high in 2007 at $119.0 million, compared to $150.9 million in 2006. The Dominion paid dividends of $60.0 million in 2007 to its sole shareholder, E-L Financial ($40.0 million in 2006). At December 31, 2007, the investment portfolio mix included 8% in cash and short-term investments (2006 - 7%), 55% in bonds (2006 - 62%) and 35% in common and preferred stocks (2006 - 29%). As at December 31, 2007, 28% of the bond portfolio matures within two years. Over the last five years, bonds maturing within two years have averaged 30% of the ending bond portfolio.

The main function of a P&C insurer's shareholder capital is to provide a buffer for a potential shortfall in current provisions for unpaid claims and for potentially higher than expected future claims on policies in force. The Dominion's shareholder capital consists mainly of retained earnings and is invested 87% in common stock fund units and the remainder in bonds. The Dominion has maintained capital throughout the year well in excess of the requirements of the *Insurance Companies Act, Canada* and regulations. The federal regulator has also established a supervisory minimum to provide a safety buffer above the legally required minimum. At December 31, 2007, The Dominion held over $250 million of capital above the regulator's supervisory minimum. The Dominion's capital ratio (capital available divided by capital required) is 227% for 2007, compared to 257% in 2006. The decrease mainly reflects the 2007 dividend. As of the date of this MD&A, the decline in capital markets and in the fair value of The Dominion's investments in 2008 has not reduced The Dominion's capital ratio by a material amount since December 31, 2007. Management regularly monitors the sensitivity of existing capital to potential threats from negative claims development, declines in investment values and operating leverage (ratio of premiums to capital).

Other comprehensive income

In 2007 The Dominion incurred an other comprehensive loss after income tax of $110.6 million, consisting of a $102.7 million reclassification adjustment for the realized investment gains recognized in net income in the year and net unrealized losses of $7.9 million. Comprehensive income, which is the sum of net income and the other comprehensive loss, was $34.0 million in 2007.

Industry dynamics and management's strategy

The function of a P&C insurer is to pool the risks of its policyholders, collecting a premium from each in order to fund the covered claims of the few. Premiums, less underwriting expenses (commissions, operating expenses and premium taxes), are held and invested (the "insurance float") until they are eventually repaid in the form of claims payments. The annual "cost of borrowing" on the insurance float is the insurer's underwriting loss for the year, which is the excess of claims and underwriting expenses over net premiums earned. An insurer generates a margin by earning an investment return on the insurance float that exceeds the underwriting loss. At the peak of the insurance cycle, such as in recent years, positive underwriting income actually adds to the investment income earned on the float. This margin on the insurance float is in addition to the investment return earned on other investments which are held in support of shareholder capital. Typically, P&C insurers require relatively little working capital as a result of collecting premiums in advance of paying claims. The function of shareholder capital is to provide a buffer for large unusual losses or in the event that existing provisions for net unpaid claims prove to be inadequate. Regulators establish minimum capital requirements for insurers to maintain.

The industry's profitability improves and deteriorates in a wave-like fashion, in multi-year cycles. The key drivers of the industry's business cycle are (i) the lag in measuring the ultimate cost of each year's claims, and the resultant challenge in setting appropriate prices, (ii) fluctuations in investment returns, which subsidize underwriting results, and (iii) the relentless downward pressure on margins from a high level of price competition in this mature industry. Price competitiveness intensifies when profits are high, or expected to be, and when capital is strong, provided any uncertainty has subsided. The average duration of a cycle in Canada is seven years. Insurers must balance pricing throughout each cycle to retain and attract the higher-margin risks to generate a superior underwriting result. A P&C insurer's results, therefore, must be assessed over the course of a cycle, and not strictly annually. A new cycle commenced in Canada in 2005, signaled by a downturn in industry return on equity. Price competition has continued throughout 2006 and 2007 and management expects it will continue in 2008, at least with respect to property lines.

The Dominion's growth strategy is not focused on market share or absolute size, as an end. Our strategy is to maintain sufficient size and presence in the marketplace in order to be relevant to brokers so that they continue to grow their business with us. Accordingly, premium growth is subject to optimizing earnings growth over time, while maintaining a relevant presence with independent brokers, our sole distribution channel.

The Dominion's relationship with brokers is important for success. Management seeks to grow its goodwill with brokers by being a supportive partner in supplying their customers with reliable, consistent service at a fair price. The Dominion monitors its relative position with its brokers and actively seeks to be a top-three supplier, if not the primary one, within a broker's operation. The majority of The Dominion's technology development consists of initiatives to improve brokers' ease of doing business with The Dominion. Our brokers have also appreciated The Dominion's responsive, regionally-sensitive, "made-in-Canada" decision-making, which reflects the benefits of being Canadian-owned and managed.

We seek to deliver high quality claims service in order to attract and retain good policyholders and preserve the support of our brokers. Our claims settlement philosophy is to provide the same degree of quality service in every interaction with a policyholder, regardless of the size or type of claim. We emphasize pro-active communication to claimants regarding the claims process and what they can expect, and to provide an empathetic and comfortable experience. We will not overpay a claim in the name of service, since that unfairly increases the cost of insurance to all policyholders. The Dominion engages an independent firm to conduct a claims satisfaction survey annually; our claimants consistently report being satisfied with The Dominion's service. To meet ever-increasing service expectations, claims management continues to build a culture where quality service and continuous improvement are valued and rewarded.

Risk management

The key risk exposures and performance drivers of a P&C insurer are appropriate pricing, competent and efficient distribution, effective underwriting (the acceptance of "risks" and properly classifying them), product management (policy terms and conditions), appropriate response to political and regulatory developments, customer service to policyholders and claimants, conservative claims provisioning, skilled human resources, cost control, sensible use of technology, and successful management of capital, comprising investments, reinsurance and liquidity. Some insurers write specialized, less understood risks and generate their margin from being a niche supplier. The majority of insurers, including The Dominion, focus on standard price-sensitive products and generate a margin from strong risk selection and efficient execution. One notable complication to the otherwise commodity nature of automobile insurance is that the product is frequently changed by provincial governments, making it more difficult to estimate claims and determine pricing assumptions. The Dominion's strategies and results for the key performance drivers are discussed in the relevant sections in this report. Management continuously reassesses and adapts its strategies in response to industry dynamics and in anticipation of emerging trends.

For personal lines and some commercial products, The Dominion sets premium rates based on actuarial analysis and consideration of competitive market forces. Personal automobile premium rates are subject to provincial regulatory approval which in most provinces involves varying degrees of review of supporting assumptions. Some commercial products are priced by individual underwriters, as part of the underwriting process. Our pricing strategy is to maintain stable prices for our policyholders, as much as possible. We also seek to set fair prices for our policyholders, while obtaining price adequacy in each segment, as the market allows. Standard P&C products are, however, very price sensitive and management carefully considers the impact of price increases on our best policyholders whom we seek to retain.

The Dominion distributes solely through independent brokers, being the channel that distributes the majority of P&C insurance products in Canada. Accordingly, The Dominion's success in the short-term is contingent on the ongoing success of brokers and on management's strategic foresight and ability to respond to threats to the broker distribution channel. Independent brokers continue to be the preferred channel of consumers and we expect brokers to continue to dominate the Canadian insurance market. The Dominion is responding to some competitors' strategy of acquiring brokers by terminating those brokers, appointing truly independent brokers to replace them and by promoting the importance of independence in our dealings with brokers and their customers. Management believes the majority of consumers will continue to prefer to be served by an independent broker who advocates their interest and offers true product choice versus a captive agent or broker working for, or owned by, a single insurer.

Management's provisions for unpaid and unreported claims and reinsurance recoverable are based on actuarially determined estimates for all costs of investigation and settlement of claims occurring prior to year end. Many assumptions underlie these estimates such as claims frequency and severity, claims payment trends, inflation and interest rates, potential changes in legislation and the interpretation of liability by the courts. Ultimate costs incurred will inevitably vary from current estimates. The provisions are discounted using discount rates that reflect expected yields from supporting investments and include provisions for adverse deviation, in accordance with accepted actuarial practice in Canada. Prior to 2007, the supporting investments were carried at either cost or amortized cost on the consolidated balance sheet and, therefore, the selected discount rates reflected a cost-based effective interest yield. Under the new Financial Instruments accounting standards, adopted January 1, 2007, these investments and their yields – and the claims discount rates – are now reflected at market value. As a result of discounting, claims expense for claims arising in prior years includes an interest cost which results from the aging of discounted balances and is notionally offset by the portion of investment income that is derived from those investments which are held to eventually pay claims.

When discount rates are decreased (increased), the net unpaid claims balance increases (decreases) and this adjustment is included in claims expense in the period the discount rate is changed. In 2007, the change in the discount rate was insignificant. In 2006, the discount rate was increased which reduced claims expense for prior year claims by $5.4 million.

Previous discounted provisions for claims arising in prior years are also changed as a result of ongoing actuarial re-evaluations of expected ultimate payments and such changes are reflected in the year they are determined. Excluding interest cost and the change in the discount rate during 2007, provisions for The Dominion's unpaid claims arising in prior years were decreased by $54.4 million, which is included as a decrease in claims expense in 2007 ($30.9 million decrease to claims expense in 2006). The major components of the 2007 favourable development are: $32.1 million favourable in automobile; $4.3 million favourable in personal property; and $18.0 million favourable in commercial property and casualty. The major components of the 2006 favourable development were: $12.5 million favourable in automobile lines; $4.4 million unfavourable in personal property; and $22.8 million favourable in commercial property and casualty.

The Dominion enters into reinsurance agreements with other insurers in order to limit its exposure to significant losses. Reinsurance does not relieve The Dominion of its primary liability as the originating insurer. The Dominion's reinsurance coverage is in the form of excess of loss treaties that provide coverage above a deductible ("retention") up to the treaty limits, per claim or, in the case of the catastrophe treaty, for the aggregate loss of series of claims arising from a single event, up to a limit of $500 million. Management selects the limit based on analysis which includes the use of several catastrophe models. The catastrophe limit remains at $500 million for 2008. Reinsurance treaties typically renew annually and the terms and conditions are reviewed by the reinsurance committee and reported to The Dominion's Board. Only reinsurers that have an 'A' credit rating, or better, are accepted on our reinsurance program as it renews each year. The Dominion writes personal and commercial property business in British Columbia and, accordingly, is exposed to loss from a major earthquake. In addition to carrying appropriate reinsurance coverage, management mitigates this exposure through conservative measurement and management processes, including strict underwriting guidelines, effective use of deductibles, adequate pricing and management of the earthquake exposure capacity allocated to each broker. The Dominion's financial preparedness for an earthquake, through its catastrophe reinsurance and through its own capital, exceeds the federal regulator's requirements.

The reinsurers' portion of The Dominion's provision for unpaid and unrecorded claims is recorded in the consolidated balance sheets as reinsurance recoverable. This balance increased modestly by $2.6 million in 2007. Reinsurance recoverable decreased by $57.2 million in 2006 mainly due to the reduction in the provision for certain older casualty claims. The reduction in the gross provision for these claims resulted in a corresponding reduction in reinsurance recoverable.

The Dominion settles certain claims involving a long-term payment stream by purchasing an annuity from a life insurer that will pay out the claim to the claimant. Most of these claims involve long-term payments for those injured in an automobile accident. These "structured settlements" result in the removal of the liability from the consolidated balance sheets. However, The Dominion retains a residual off-balance sheet contingent liability in that it guarantees to pay the remaining obligations of the annuity in the event that the life insurer cannot. The Dominion uses only credit-worthy federally-regulated insurers and considers this credit risk to be negligible.

The Property and Casualty Insurance Compensation Corporation ("PACICC") is a regulated entity that funds losses sustained by policyholders, within limits, in the event of an insurer insolvency. The Dominion has ongoing exposure to fund its portion, based on market share, of covered losses of an insolvent insurer. The Dominion accrues its obligations at the time they become known. Occasionally PACICC refunds to insurers recoveries from the assets of entities in liquidation, which are recorded as reductions to expenses. The Dominion's contingent obligation to PACICC results in an ongoing exposure that could have a material impact on net income.

The majority of other expenses consists of base commissions and premium taxes which are both based on fixed percentages of the applicable premiums and provide no economies of scale. Managing the insurer's internal operating costs is therefore important in this competitive industry. Salaries comprise over two thirds of operating expenses. P&C insurance is a knowledge-based service and, accordingly, skilled, experienced and effective human resources are The Dominion's most important internal resource. Staff levels were increased in 2007 and 2006 mainly to address increasing regulatory requirements and to resource technology development projects. The Dominion's human resource management practices focus on providing a positive work experience and maintaining a performance-based compensation program that is in line with the industry. Annual performance appraisals, annual salary reviews and bonus programs covering all levels of staff are geared toward promoting and rewarding employees who truly "Make a Difference."

After salaries, technology is the most significant operating cost. Approximately half of the 2007 technology expenditure is the cost of running existing system operations. The remainder is system development for which The Dominion follows a strategy of making incremental improvements within a disciplined annual budget. In addition to meeting the ever-increasing requirements of regulators, our development effort is focused on enhancing "ease of doing business" for brokers and enhancing operating efficiency.

The Dominion manages its investments to provide for the payment of policy liabilities and to provide a return on shareholder's equity. Investing activities are subject to the *Insurance Companies Act, Canada* and to investment guidelines established by the Investment Committee of The Dominion's Board. Investment managers report on their performance and outlook quarterly to the Investment Committee. Policy liabilities are supported by fixed income investments, predominantly government bonds and some high quality corporate bonds. High quality preferred shares are also held because of their superior after-tax yields, since their dividends are fully deductible. Given the uncertainty in the quantum and timing of claims payments for property and casualty claims, strict asset and liability matching is neither feasible nor necessarily optimal. The Dominion manages the duration of its bond portfolio within a broad range, between 50% to 300% of the duration of claims liabilities, which is typically between two to four years. The Dominion normally maintains its bond duration between 100% to 200% of the duration of its claims liabilities in order to pursue the higher yields which are usually available in the longer portion of a normal yield curve. At December 31, 2007, the bond duration of 3.7 years (2006 – 4.2 years) is 90% of the net unpaid claims duration (2006 - 102%).

Maintaining sufficient liquidity is essential to fund the ongoing payment of claims, including the increased requirements of a sudden catastrophe. In order to generate sufficient cash and investments to fund policy liabilities on an ongoing basis, premium rates must adequately incorporate reasonable projections of claims, investment return and expense levels. With adequate premium rates, cash flow from premium collection and from interest and dividends is typically more than adequate for meeting claims payments. In addition to maintaining adequate cash and short-term investments on hand, the ability to more easily dispose of risk-free government bonds, which comprise the majority of the bond portfolio, provides additional liquidity if necessary.

Given The Dominion's significant mix of fixed income investments and deliberate exposure to a longer asset duration, volatility in the financial markets, particularly from interest rates, can have a significant impact on the market value of the investment portfolio. The Dominion's fixed income investment managers proactively monitor market conditions and make mix adjustments in anticipation of significant market changes. The Dominion's usual maturity profile also allows for ongoing liquidity to be maintained such that The Dominion can operate for some time with minimal need to liquidate securities and thus minimize realized losses from disposal at unfavourable market values. The Dominion's common stocks and some fixed income securities are considered to be in support of shareholder capital and are therefore managed from a longer term perspective. Emphasis is on quality and capital appreciation for stocks and on quality and higher yields for bonds.

Management regularly monitors and reports to The Dominion's Board of Directors on the potential impact on capital adequacy of the main threats to financial condition, mainly, increases in market interest rates, declines in common stock market values, deterioration in underwriting results and growth above plan. Annually, the Appointed Actuary performs an analysis of the impact of severe adverse scenarios as required by the federal regulator. This report is reviewed by management and The Dominion's Board of Directors and is filed with the regulator. These analyses demonstrate that The Dominion has sufficient resources to withstand significant adverse events. Management incorporates their implications regarding changing risk factors in annual planning and ongoing forecasting.

Critical accounting estimates

The consolidated financial statements are prepared in accordance with generally accepted accounting principles in Canada which require estimates and assumptions in determining amounts reported in the consolidated financial statements. Note 3 to the consolidated financial statements describes the significant accounting policies.

The most important accounting estimates arising from The Dominion's business are the provisions for claims liabilities, consisting of the provisions for unpaid claims and for reinsurance recoverable. The provision for unpaid claims reflects an estimate of the net present value of the ultimate cost of claims that have happened by the balance sheet date and the related expenses expected to be incurred to settle those claims. Reinsurance recoverable represents the amounts expected to be recovered from reinsurers for their share of The Dominion's claims costs, in accordance with the terms and conditions of The Dominion's reinsurance contracts.

On a case-by-case basis, our claims adjusters use their experience and judgment and follow The Dominion's documented claims reserving philosophy to enter a "case" reserve for each claim in our claims system (for certain claims the system automatically applies an average reserve established by our actuaries). The claims reserving philosophy also addresses the timing of entering reserves. Reserves are adjusted promptly as additional information becomes known that changes the adjuster's view. The terms of our reinsurance treaties are then applied to the case reserves, where applicable. The Dominion's Appointed Actuary performs ongoing valuations to establish the provisions for unpaid claims and reinsurance recoverable. The actuarial valuations include analyzing case and average reserves, historical settlement patterns, estimates of trends in frequency and severity, trends in legal interpretations and other internal and external information. Projection techniques are applied to the company's claims data to determine the ultimate costs, including a provision for claims that have occurred but have not yet been reported. The Appointed Actuary's valuation work is governed by accepted actuarial practice as established by the Canadian Institute of Actuaries. The provisions are discounted to take into account the time value of money. As required by the federal regulator, the Appointed Actuary's valuation work is reviewed by an external actuary at least once every three years. Measurement uncertainty in these estimates arises from many internal and external factors, including changes to the product, regulations, internal claims handling procedures, economic inflation and legal trends. The knowledge and judgment of senior management on these factors is taken into account in the actuary's selection of assumptions where appropriate.

A 5% variation in the net unpaid and unreported claims is a reasonably likely net change that could result from changes in the many assumptions that underlie this critical accounting estimate. A 5% change in the net unpaid claims balance (that is, unpaid and unreported claims net of reinsurance recoverable) would result in a change in claims expense of $67.1 million ($43.2 million after tax). One assumption with a pervasive effect on the net claims balance is the assumed discount rate. A 1% change in the selected average discount rate results in a change in net unpaid claims of $34.1 million.

Another important accounting uncertainty is the possible existence and magnitude of a "premium deficiency" associated with premium liabilities. Premium liabilities are the claims and related expenses which will occur, after the balance sheet date, during the remaining terms of the policies currently in force (i.e. claims incurred in a subsequent financial reporting period on policies now in force). Premium liabilities are not directly provided for in the consolidated financial statements, which recognize only claims that have occurred by the balance sheet date. Nevertheless, the provision for unearned premiums is an indirect provision to cover premium liabilities since it is the revenue that has been deferred for matching against the claims and expenses that will occur over the remaining terms of in-force policies. The Appointed Actuary determines whether unearned premiums is a sufficient provision for premium liabilities. If not, a "premium deficiency" provision would be recognized as an expense in the income statement and, on the balance sheet, as a reduction to unamortized deferred policy acquisition expenses plus a separate liability for the amount of the deficiency, if any, that exceeded deferred policy acquisition expenses. No premium deficiency exists in 2007 and 2006.

Outlook

As expected in last year's MD&A, underwriting income declined in 2007 as a result of declining premium levels and increasing claims costs. We expect claims costs to continue to increase into 2008. Management expects underwriting results to continue to deteriorate in 2008 followed by market hardening and improved pricing in 2009 or 2010. The high level of realized investment gains in recent years is not expected to recur in the near term, as a result of uncertainty in global economies and capital markets. Our strategy is to maintain underwriting discipline, retaining our best business and reacting quickly in areas that are deteriorating beyond our tolerance. We continue to pursue long-term earnings growth above short-term premium growth.

Management's Discussion and Analysis
Report on Life Insurance Operations

The Empire Life Insurance Company provides a broad range of Life Insurance and wealth management products, employee benefit plans and financial services to meet the needs of individuals, professionals and businesses through a network of Independent Financial Advisors (IFA), Managing General Agents (MGA), National Account firms and Employee Benefits brokers and representatives.

Overview

Empire Life reported shareholders' net income of $54.7 million for 2007 compared to $57.5 million for 2006. The change to Financial Instruments accounting adopted in 2007 has impacted the comparability of Capital and Surplus earnings. Under previous accounting rules, realized and unrealized gains and losses on equities in the Capital and Surplus account of Empire Life were amortized to income at a quarterly rate of 5%, which tended to smooth the impact of fluctuations in stock market returns. With the new accounting standards adopted in 2007, all realized gains and losses on these equities are recorded on the consolidated statements of income and unrealized gains and losses are recorded as other comprehensive income (OCI) in a new financial statement called the consolidated statement of comprehensive income.

The decrease in earnings relative to 2006 was due to reduced overall net income from its three product lines (Wealth Management, Employee Benefits and Individual Insurance). This decrease was partially offset by Capital and Surplus earnings which were slightly higher than 2006 due to increased investment income and reduced income tax expense. The reduction in overall earnings from the three product lines was mainly a consequence of increased new business strain and less favourable experience gains in the Individual Insurance product line. These were partially offset by the higher profits that resulted from a larger in-force base in all three product lines. The net contribution to E-L Financial's earnings, after adjustment for minority interests, was $43.6 million ($45.8 million for 2006). The risk based capital ratio at Empire Life, as measured by Minimum Continuing Capital and Surplus Requirements ("MCCSR"), continued to be strong and well above minimum requirements during 2007 and was 194% at the end of the year.

During the fourth quarter, Empire Life completes its annual review and revision of the actuarial assumptions underlying policy liabilities. E-L Financial's net income in 2007 was increased by $0.6 million due to the net release of policy liabilities resulting from the annual revision of assumptions. The net release was primarily a result of a reserve release resulting from improved mortality experience partially offset by reserve strengthening to reflect lower future expected reinvestment rates. The net income increase in 2007 was an improvement over the 2006 reduction in earnings of $5.2 million that resulted from the annual assumption revision conducted during the fourth quarter of 2006.

Total assets under administration grew by 19% during 2007, reaching $8.4 billion. Segregated fund assets were up 19% due primarily to positive net sales results throughout the year. General fund assets also increased by 19% primarily due to the introduction of the new Financial Instruments accounting whereby assets are now recorded at fair value, and continued growth in the Individual Insurance product line.

Overall premium revenue in 2007 was up 5% from last year's level as insurance premiums rose by 12% and annuity premiums declined by 24%.

The Summary of Life Insurance Operations on page 68 of this Annual Report provides an overview of results for the five-year period from 2003 to 2007. The analysis and discussion which follow focus on the 2007 and comparative 2006 results for each of the major lines of business.

Report on Life Insurance Operations (cont'd)

Financial analysis

The following table and commentary analyze Empire's financial results for 2007 and 2006:

	Wealth Management		Employee Benefits		Individual Insurance		Capital & Surplus		Total	
(millions of dollars)	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
Revenue										
Premium income	**$ 91**	$ 121	**$ 254**	$ 226	**$ 286**	$ 255	**$ —**	$ —	**$ 631**	$ 602
Fee and other income	**97**	73	**5**	4	**2**	2	**1**	2	**105**	81
Investment income	**52**	54	**5**	6	**84**	101	**24**	17	**165**	178
Realized gain on assets sold	**6**	—	**1**	—	**59**	—	**35**	—	**101**	—
Fair value change in assets	**(20)**	—	**(1)**	—	**(63)**	—	**—**	—	**(84)**	—
Amortization of investment gains/losses	**—**	4	**—**	1	**—**	11	**—**	46	**—**	62
	226	252	**264**	237	**368**	369	**60**	65	**918**	923
Expenses										
Benefits and expenses	**214**	243	**246**	223	**377**	352	**1**	—	**838**	818
Income and other taxes	**2**	2	**10**	8	**—**	9	**17**	24	**29**	43
	216	245	**256**	231	**337**	361	**18**	24	**867**	861
Net income (loss) after tax	**$ 10**	$ 7	**$ 8**	$ 6	**$ (9)**	$ 8	**$ 42**	$ 41	**51**	62
Policyholders' portion									**(4)**	5
Shareholders' net income									**55**	57
Minority shareholders' portion of net income									**11**	11
Net profit contribution to E-L Financial									**$ 44**	$ 46
Assets under administration										
General fund assets	**$ 931**	$ 909								
Segregated fund assets	**$4,594**	$3,848								
Annualized premium sales			**$ 46**	$ 42	**$ 88**	$ 74				

Wealth management

For the fifth consecutive year, the assets in Empire Life segregated funds experienced double-digit growth as assets increased by 19% in 2007. The growth in assets during the year was primarily attributable to the continued increase in net sales. Gross sales of Empire Life segregated funds increased by 34% in 2007 as a result of the continued marketing focus placed on this product line.

Premium income for this product line is comprised solely of new deposits on products with a guaranteed rate of return and excludes deposits on segregated fund products. Premium income in this product line was down 24% compared to 2006 due to decreased sales of both deferred and immediate annuities. Revenue also declined relative to 2006 due to the negative fair value change in assets that resulted primarily from a rise in market interest rates since the beginning of the year. The fair value change in assets was primarily related to bonds matched to policy liabilities and did not have a significant impact on net income due to the corresponding change in policy liabilities.

Net income was higher than the level this product line achieved in 2006. Pre-tax profit on in-force business was up $6.3 million from 2006 as a result of the growth in segregated funds under management. This was partially offset by the increase in new business strain for this product line resulting from the increase in sales in 2007. The increase in new business strain reduced pre-tax earnings by $2.1 million relative to 2006.

Employee benefits

Strong sales throughout the year resulted in annual sales for this product line that were 10% higher than 2006. These strong sales enabled the product line's premium income to grow by 12% compared to 2006.

Earnings in the Employee Benefits product line increased from the level in 2006 due primarily to the higher profits that resulted from a larger in-force base relative to last year.

Technology development, ever-important in maintaining this product line's strong competitive position in the delivery of client services, continued during 2007 with the completion of an enhanced health claims processing system.

Individual insurance

Increased penetration in the National Account channel coupled with continued productive relationships with the MGA network led to another record sales year in the Individual Insurance product line in 2007. Sales in this product line were 19% higher than in 2006, primarily as a result of increased investment deposits on universal life sales.

The continued focus on organic sales growth led to a 12% growth in premium income. For this product line, realized gains on assets sold and fair value changes in assets are primarily related to gains or losses on bonds and stocks matched to policy liabilities and do not have a significant impact on net income due to corresponding changes in policy liabilities.

This product line's 2007 net income decreased relative to 2006. This decrease was primarily a consequence of increased new business strain and the deterioration in experience gains relative to last year. The 2007 increase in new business strain was a product of higher sales and higher new business strain rates on certain long-term products. The higher new business strain rates were a result of increased new business policy liabilities that were primarily a result of the transition to Financial Instruments accounting during a period of relatively low interest rates. The increase in new business strain reduced pre-tax net income by $8.5 million versus 2006.

In 2007, pre-tax experience gains were $14.9 million lower than in 2006 due to a combination of lower investment returns and less favourable persistency experience.

In 2007, the annual reserve assumption update resulted in a net release of policy liabilities for this product line. The reserve release to reflect improvements in mortality and expense ratios more than offset the strengthening to reflect updated lapse assumptions and the impact of a reduction in future expected reinvestment rates. In 2006 there was a net reserve strengthening but this was more than offset by the favourable impact on reserves of the implementation of an updated asset-liability matching strategy and of the substantive enactment of a change to Ontario income tax rules. Overall, the impact of the reserve update on 2007 pre-tax earnings was $3.3 million less favourable than the net impact of the various 2006 reserve updates on last year's earnings.

Capital and Surplus

In addition to the three major lines of business, Empire Life maintains distinct accounts for the investment income attributable to Policyholders' Surplus and to Shareholders' Capital and Surplus. The new accounting standards in 2007 have had a dramatic impact on the emergence of Capital and Surplus earnings. Previously, realized gains and losses on bonds and, both realized and unrealized gains and losses on equities in the Capital and Surplus account were amortized to income. Under Financial Instruments accounting adopted in 2007, all realized gains and losses on bonds and equities are recognized immediately in the income statement. The 2007 contribution to net income from the Policyholders' Surplus account and the Shareholders' Capital and Surplus account was $41.7 million compared to $41.2 million in 2006.

The improvement in earnings relative to 2006 was a result of lower income tax expense and increased investment income. These positive impacts were partially offset by realized gains in the current year being lower than amortized gains recognized last year.

Investment income increased relative to 2006 as a result of a shift in asset mix towards fixed income investments. The reduced income tax expense relative to 2006 was partially attributable to an income tax expense of $4.5 million in 2006 that resulted from the reduction in future federal income tax rates during the second quarter of 2006. That change resulted in a corresponding reduction in the future income tax asset of Empire Life. While federal income tax rates were also reduced during the fourth quarter of 2007, this change had little impact on Capital and Surplus net income as the future tax asset that existed in 2006 in this account was almost entirely eliminated on January 1, 2007 with the introduction of Financial Instruments accounting.

Liquidity and capital resources

Empire Life maintains a high level of liquid assets in its general fund so that cash demands can be readily met. At the end of 2006 and 2007, total liquid assets were more than double total demand liabilities.

During 2007, cash provided by operations was $56.0 million compared to $86.3 million in 2006. This was primarily as a consequence of 2007 future income tax related items. Under existing tax legislation, the decline in the fair value of bonds due to rising market interest rates that occurred in 2007 is not immediately deductible for tax purposes causing a reduction in cash inflow from recovery of current income taxes.

Cash provided by investment activities was $19.8 million in 2007 compared to cash used for investment activities of $105.7 million in 2006. The increase in cash provided by investment activities relative to 2006 was due to the 2006 completion of investment purchases related to ongoing changes in investment portfolio duration mix.

Cash used for financing activities during 2007 was $11.8 million compared to nil for the same period in 2006. The increase in cash used relative to 2006 was due to Empire Life's decision to pay a dividend to common shareholders in 2007. Empire Life's dividends to E-L Financial are fully eliminated in the consolidated financial statements of E-L Financial.

Empire Life continues to maintain a strong balance sheet and capital position. With a ratio of 194%, capital is well in excess of minimum regulatory requirements as measured by the Minimum Continuing Capital and Surplus Requirements. The "A (Excellent)" rating given to Empire Life by A.M. Best Company provides third party confirmation of this strength.

Other comprehensive income

Under Financial Instruments accounting adopted in 2007, all unrealized gains and losses on Capital and Surplus financial assets are recorded as OCI. For 2007, the unrealized gain on these assets was less than the realized gains reclassified from OCI to net income during the period. After consideration of minority interests and participating policyholders' interests, the net result was an other comprehensive loss of $18.6 million for 2007.

Industry dynamics and management's strategy

Empire Life operations are organized by product line with each line of business having responsibility for product development, marketing, distribution, pricing and customer service within their particular markets. This structure recognizes that there are distinct marketplace dynamics in each of the three major product lines. Management believes this structure enables each line of business to develop strategies to achieve the enterprise-wide objectives of business growth and expense management while recognizing the unique business environment in which each operates. The lines of business are supported by corporate units that provide administrative and technological services to the lines of business, manage invested assets, and oversee enterprise risk management policies.

Based on revenue, Empire Life is among the ten largest life insurance companies in Canada. Empire Life has less than six per cent market share in all three of its product lines. To be priced reasonably competitively in the marketplace while simultaneously providing acceptable long-term financial contribution to shareholders, Empire Life, as a mid-sized player, must find a way to be cost competitive with the larger companies that have some natural economy of scale advantages. In order to improve its unit expenses, management's enterprise-wide strategic focus has been on steady growth in its selected markets and on expense management. Empire Life has focused exclusively on the Canadian marketplace and within it, on particular market segments where management feels there are opportunities to build solid, long-term relationships with independent distribution partners by offering competitive products and more personal service. By focusing on particular market segments and by being seen by these independent advisors as a viable alternative to a shrinking number of broadly focused competitors, Empire Life believes these solid relationships will enable sustainable growth at above industry average levels and ultimately result in competitive unit expenses.

The Wealth Management product line at Empire Life is comprised of segregated fund products and guaranteed interest products. These products compete against those offered not only by other life insurers but also by a variety of other financial institutions. A key element of any competitive strategy in this market is providing a competitive rate of return to clients. The value oriented equity investment strategy used by Empire Life has resulted in an above average long-term return track record in the fund marketplace. Empire Life is expecting to continue to take advantage of this competitive track record and thus grow its market share through broadened distribution reach coupled with the addition of new funds and fund products.

Within the broader employee benefits marketplace in Canada, Empire Life continues to focus on the small group market comprised of employers with fewer than two hundred employees. This niche strategy coupled with an ongoing focus on balancing growth and profit has enabled Empire Life to be cost competitive within this market segment and is expected to enable this product line to continue to grow its market share while generating acceptable returns.

Individual Insurance products are very long-term in nature and consequently can be subject to significant levels of new business strain. New business strain occurs when the provision for adverse deviation included in the actuarial policy liabilities exceeds the profit margin in the product pricing. Unless a company opts for increased levels of reinsurance, current price levels in the Canadian marketplace create significant new business strain that has a negative impact on short-term earnings. Rather than give up the future earnings that would emerge if the trend in mortality improvement witnessed in recent decades continues, Empire Life continues to utilize lower than average levels of reinsurance with the resultant negative impact on short-term earnings. Because of the reasonable long-term returns of this product line, Empire Life continues to focus on steady growth, technology development and process improvement in order to continue to improve this product line's unit expenses and maintain a competitive market position while generating acceptable long-term financial contribution.

Risk management

Empire Life faces a broad range of risks and uncertainties in its day-to-day operations. The main risks can be classified into three categories: investment risks, insurance risks and other risks. As part of its risk management practices, Empire Life has implemented and maintains a program based upon the standards of sound business and financial practices that was previously prescribed by regulatory authorities.

Investment risks are centred on the performance of the investment portfolio of Empire Life, which is affected by general economic and stock market conditions. Investments in Empire Life general funds are subject to Investment Guidelines that are reviewed and approved by the Investment Committee of the Empire Life Board. The Guidelines are intended to limit overall investment risk by setting out eligible investments, diversification criteria and investment objectives for various asset classes. A decline in stock markets can impact the return on assets backing capital, the management fees collected on segregated fund contracts and on index funds within universal life contracts, and policy liabilities in respect of

segregated fund guarantees. Empire Life estimates that without considering subsequent market returns, an immediate ten per cent decline in the stock market as at December 31, 2007 would result in a decrease to E-L Financial's net income of approximately $7.3 million and a decrease to E-L Financial's OCI of approximately $24.4 million.

Investment risks also include credit, interest rate, liquidity and foreign exchange risks. The management and Board committees of Empire Life review credit quality relative to investment purchases and also monitor the credit quality of invested assets over time. Empire Life has an asset-liability matching committee, which reports regularly to the Investment Committee of its Board, and monitors the matched position of investments to the liabilities within the various segments of Empire Life operations. The matching process ensures that assets supporting policy liabilities closely match the timing and amount of policy obligations as well as provide the appropriate amount of liquidity. This process addresses the management of interest rate risk, which is the risk of economic losses due to the need to reinvest or divest during periods of changing interest rates, and liquidity risk. The matching process also monitors and aligns the foreign currency position of the assets with the liabilities within the various segments thus managing the risk emanating from changes in foreign exchange rates. As part of its matching program, Empire Life uses derivative instruments, including futures contracts and foreign currency forward contracts, to manage interest rate and foreign exchange risks. To manage the risk associated with the use of these instruments the Empire Life asset-liability matching committee has established policies and procedures including the establishment of authorized types and applications for derivatives, monitoring systems, and authorization limits for specific personnel. Empire Life estimates that an immediate one per cent parallel decrease in interest rates as at December 31, 2007 would result in a decrease to E-L Financial's net income of approximately $29.7 million and an increase to E-L Financial's OCI of approximately $4.1 million.

Insurance risks, which include product design, pricing, underwriting and liability risks, are based on the risk that actual experience in the future will not develop as estimated. In addition to the possibility that investment returns will differ from expected returns due to the investment risks noted above, Empire Life is subject to the risk that experience on claims, policy lapse rates and operating expenses will not emerge as expected. As prescribed by regulatory authorities, the Appointed Actuary reports annually to the Audit Committee of the Empire Life Board on the financial condition of Empire Life, outlining the impact on capital levels should future experience be adverse. As part of the standards of sound business practices program, management has developed a product design and pricing policy as well as an underwriting and liability management policy for each of its major product lines. Reinsurance is used to mitigate excessive exposure to adverse mortality and morbidity experience. Management reviews and establishes retention limits for its various product lines and its Board of Directors approves changes to these retention limits. As reinsurance does not release a company from its primary commitments to its policyholders, Empire Life reviews the financial soundness of reinsurers before entering into any reinsurance treaty and thereafter once a treaty is in place.

Other risks include internal control, business interruption and regulatory risks. An internal audit function monitors the effectiveness of the internal controls developed by management and reports its findings to the Audit Committee of the Empire Life Board. A business continuity program, including the availability of off-site system recovery facilities, is in place to minimize the impact in the event of a major disruption (including the onset of an influenza pandemic in Canada) so that key business functions can continue and normal operations can resume efficiently. Management has established a compliance program and has appointed a chief compliance officer and compliance officers in each business unit to manage regulatory risk, and provides a regular report to the Audit Committee of the Empire Life Board on regulatory compliance.

Critical accounting estimates

The Company's significant accounting policies are described in Note 3 to the consolidated financial statements. Certain of these policies require management to make estimates and assumptions about matters that are inherently uncertain. The most critical of these estimation processes for Empire Life are the valuation of policy liabilities and the determination of allowances for impaired investments.

Policy liabilities

The determination of policy liabilities requires best estimate assumptions that cover the remaining life of the policies for mortality, morbidity, investment returns, persistency, expenses, inflation and taxes and include consideration of related reinsurance effects. Due to the long-term risks and measurement uncertainties inherent in the life insurance business, a margin for adverse deviation from best estimates is included in each assumption. These margins allow for possible deterioration in future experience and provide for greater confidence that policy liabilities are adequate to pay future benefits. The resulting provisions for adverse deviations have the effect of increasing policy liabilities and decreasing the income that otherwise would have been recognized at policy inception. A range of allowable margins is prescribed by the Canadian Institute of Actuaries. Assumptions are reviewed and updated at least annually and the impact of changes in those assumptions is reflected in earnings in the year of the change. Empire Life has estimated that a decrease (increase) in the individual insurance mortality rate assumption equal to 3% of the base table would result in an increase (decrease) in E-L Financial's net income of approximately $19.4 million.

Allowances for impaired investments

Empire Life maintains a prudent policy in setting the allowance for impaired investments. When there is no longer reasonable assurance of full collection of loan principal and loan interest related to a mortgage or policy contract loan, management establishes a specific allowance for loan impairment and charges the corresponding reduction in carrying value to income in the period the impairment is identified. In determining the estimated realizable value of the investment, management considers a number of events and conditions. These include the value of the security underlying the loan, geographic location, industry classification of the borrower, an assessment of the financial stability of the borrower, repayment history and an assessment of the impact of current economic conditions. Changes in these circumstances may cause subsequent changes in the estimated realizable amount of the investment and thus to the specific allowance for impairment.

Available for sale securities are subject to a regular review for losses that are other than temporary. If a security is assessed to have a loss that is other than temporary, the security is written down to fair value in the consolidated statements of income. Factors considered in determining whether a loss is temporary include the length of time and extent to which fair value has been below cost, the financial conditions and near-term prospects of the issuer and the ability and intent to hold the investment for a period of time sufficient to allow for recovery.

Outlook

The landscape of the Canadian life insurance marketplace has changed dramatically since the beginning of the millennium as a result of demutualization and industry consolidation. While Empire Life, as a mid-sized life insurance company, has become more sensitive to pricing and strategic actions that can be employed by the three largest carriers who now have in excess of 60% of all major industry segments, the industry changes have also created opportunities. The demutualizations of five Canadian mutual insurance companies that were completed in early 2000 have had a permanent effect on the industry as investor demand for immediate earnings growth has altered the way life insurance companies approach the business. Gone are the days where some product lines could get by without demonstrating a reasonable rate of return. Additionally, the downward pressure that new business strain puts on immediate earnings growth means that most companies have to choose between slowing down their individual life insurance growth and reinsuring a large portion of their new business to avoid the suppression of short-term earnings.

Nowhere has the impact of these industry changes been more evident than in the employee benefits product line. The trend to fewer players and ongoing pressure for reasonable rates of return on investments from each product line has led to higher prices and profit margins in the employee benefits marketplace. As consolidation activity continues to slow down, employee benefits profit margins should remain level provided a company can continue to improve operating efficiency and offer the resultant economies of scale to the

marketplace through lower expense charges. The focus at Empire Life on balanced growth and profit, and its demonstrated impact in reducing unit expenses, coupled with a focus on building strong relationships with our producing partners, should continue to enhance our strong presence in the small group marketplace while simultaneously achieving acceptable returns.

The individual life insurance marketplace in Canada continues to be competitively priced. This is partly due to the ongoing improvements in mortality and in operating efficiencies, most of which have been passed on to the consumer. It is also partly due to the availability of competitive reinsurance rates that enable companies who use higher levels of reinsurance to reduce new business strain and thus avoid having sales growth suppress short-term earnings. Industry consolidation has offered opportunities for companies such as Empire Life to grow by filling the void left in independent advisors' product portfolios when the products of acquired companies are no longer offered. Empire Life will continue to take advantage of the growth resulting from the strong relationships that have been built with members of both the IFA and MGA distribution networks, and will continue to broaden its distribution reach into the National Account network. Despite modest overall industry growth in this product line over the last five years, Empire Life has experienced significant sales growth over the same period. This, in turn, has resulted in significant improvements in cost ratios. While expecting to continue to grow this line of business at above the forecast modest industry average rates, this past improvement in unit expenses means that Empire Life can continue to take a more balanced approach to growth and profit and focus on those market segments where its core products are both competitive and provide an acceptable rate of return.

On the wealth management side of the business, a fifth straight year of positive returns from Canadian stock markets has continued to benefit the Canadian pooled fund marketplace and led to strong net sales once again in 2007. While industry net sales may be adversely impacted should stock markets decline in a given year in the future, the focus at Empire Life continues to be growing its market share in the segregated fund business. During 2007, Empire Life introduced a new global dividend segregated fund. Looking forward, it is expected that the continued development of new product offerings and features coupled with the recently expanded sales account management team will enable a continuation of the market share growth Empire Life has experienced in the last four years.

There is uncertainty regarding the nature of, and the timing of substantive enactment of proposed new federal tax rules related to Financial Instruments accounting adopted in 2007. For life insurance companies, the timing of substantive enactment will have an impact on both the timing of future net income and the timing of future cash flows. The proposed tax rules primarily relate to taxation of bonds and policy liabilities.

Empire Life does not hold any non-bank asset backed commercial paper and consequently anticipates no direct impact from these investments on its future financial condition.

Empire Life remains committed to the distribution of its products through qualified intermediaries who can provide the counsel consumers need to fulfil their financial security and wealth management goals. It is our intention to continually enhance the product, technology and service support that these advisors need to satisfy their clients. We believe that the strengthening of our relationships with our distribution partners and a focus on developing new relationships with quality advisors are the key elements in achieving our growth goals.

March 4, 2008

Management Report

The accompanying consolidated financial statements of E-L Financial Corporation Limited and its subsidiaries and all information in the Annual Report are the responsibility of management and have been approved by the Board of Directors. The consolidated financial statements necessarily include amounts that are based on judgments, which are applied consistently and are considered appropriate in the circumstances.

The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. Financial and operating data elsewhere in the Annual Report are consistent with the information contained in the consolidated financial statements.

The Company and its subsidiaries maintain systems of internal control which are designed to provide reasonable assurance that assets are safeguarded, that transactions are properly recorded and that financial records are reliable for preparing the consolidated financial statements.

The Board of Directors carries out its responsibility for the consolidated financial statements in this Annual Report principally through its Audit Committee and the Audit Committees of its subsidiaries. These Audit Committees meet periodically with management and with the internal and external auditors to discuss the scope and results of audit examinations with respect to internal controls and financial reporting of the Company and its subsidiaries. The Audit Committees of the subsidiaries also meet periodically with the Appointed Actuaries.

The Appointed Actuaries are appointed by the Boards of Directors of the insurance subsidiaries to conduct an annual valuation of policy liabilities, in accordance with accepted actuarial practices, and to report on whether the valuations are appropriate and whether their results are fairly presented in the subsidiaries' financial statements. The Appointed Actuaries use the work of the external auditors in verifying data used for valuation purposes.

Deloitte & Touche LLP has been appointed external auditors. It is their responsibility to report to the shareholders regarding the fairness of presentation of the Company's consolidated financial position and results of operations as shown in the annual consolidated financial statements. In carrying out their audit, the external auditors also consider the work of the actuaries and their reports on policy liabilities. The external auditors have full and free access to, and meet periodically with, the Audit Committees to discuss their audits. The Auditors' Report outlines the scope of their examination and their opinion.

Duncan N.R. Jackman
Chairman, President and
Chief Executive Officer

Mark M. Taylor
Executive Vice-President
and Chief Financial Officer

Auditors' Report

To the Shareholders of
E-L Financial Corporation Limited

We have audited the consolidated balance sheets of E-L Financial Corporation Limited as at December 31, 2007 and 2006 and the consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Licensed Public Accountants

Toronto, Canada
March 4, 2008

Consolidated Balance Sheets
(thousands of dollars)

	As at December 31,	
Assets	**2007 (Note 2)**	2006
Cash and cash equivalents (Note 20)	**$ 364,785**	$ 219,400
Portfolio investments (Note 4)	**1,097,886**	1,026,175
Equity method investment (Note 5)	**309,861**	331,698
Investments - insurance operations (Note 6)	**5,687,639**	4,983,381
Premiums receivable	**259,894**	258,004
Accrued investment income	**27,612**	26,995
Deferred acquisition expenses	**95,838**	97,637
Reinsurance recoverable (Note 8)	**199,957**	183,598
Income taxes receivable	**81,697**	7,501
Future income taxes (Note 13)	**20,180**	130,965
Other assets (Note 9)	**95,639**	93,258
	$ 8,240,988	$ 7,358,612
Segregated funds assets	**$ 4,594,300**	$ 3,847,800

Consolidated Balance Sheets (continued)
(thousands of dollars)

As at December 31,

Liabilities	**2007 (Note 2)**	2006
Policy liabilities (Note 8)	**$ 5,050,514**	$ 4,271,352
Policyholders' funds on deposit	**30,620**	29,821
Income and other taxes payable	**6,366**	29,486
Provision for profits to policyholders	**15,888**	14,552
Deferred realized net gains on investments	**24**	248,080
Other liabilities (Note 10)	**177,345**	162,620
Future income taxes (Note 13)	**73,346**	64,812
	5,354,103	4,820,723
Minority interest	**133,095**	96,825
Participating policyholders' interest	**53,344**	43,343
	186,439	140,168
Shareholders' equity		
Capital stock (Note 12)	**272,388**	272,388
Retained earnings	**2,399,714**	2,125,333
Accumulated other comprehensive income	**28,344**	—
	2,700,446	2,397,721
	$ 8,240,988	$ 7,358,612
Segregated funds liabilities	**$ 4,594,300**	$ 3,847,800

Approved by the Board

Duncan N.R. Jackman, Director

Douglas C. Townsend, Director

E-L Financial Corporation Limited and subsidiary companies

Consolidated Statements of Income
(thousands of dollars except per share amounts)

	Years ended December 31,	
	2007 (Note 2)	2006
Revenue		
Insurance premiums (Note 11)	**$ 1,539,125**	$ 1,508,445
Annuity premiums	**91,083**	120,425
Investment and other income (Note 7)	**394,861**	374,867
Income (loss) from equity method investment (Note 5)	**(20,119)**	56,850
Change in fair value of held for trading investments (Note 7)	**(83,317)**	—
Realized gain on held for trading investments	**65,916**	—
Realized gain on available for sale investments	**175,397**	—
Amortization of realized investment gains	—	39,965
Amortization of unrealized investment gains	—	22,002
Gain on sale of investments	—	73,289
Change in unrealized appreciation of portfolio investments	—	124,951
	2,162,946	2,320,794
Expenses		
Claims and policy benefits	**1,273,824**	1,220,550
Commissions	**344,536**	331,405
Operating	**217,378**	195,618
	1,835,738	1,747,573
Income before the undernoted items	**327,208**	573,221
Taxes		
Income (Note 13)	**59,805**	119,499
Premium	**45,322**	44,965
Investment and capital	**4,283**	3,109
	109,410	167,573
Income before policyholders' and minority shareholders' interest	**217,798**	405,648
Policyholders' and minority shareholders' portion of income	**7,110**	33,128
Net income (Note 14)	**$ 210,688**	$ 372,520
Net income per share (Note 12)		
- basic	**$ 60.29**	$ 109.97
- diluted	**$ 57.37**	$ 104.21

Consolidated Statement of Comprehensive Income

(thousands of dollars)

	Year ended December 31, 2007 (Note 2)
Net income	**$ 210,688**
Other comprehensive income (loss), net of tax	
Unrealized fair value change on available for sale investments	**7,939** [1]
Less: Realized gain on available for sale investments	**136,767** [2]
Other comprehensive income (loss), net of tax	**(128,828)**
Comprehensive income	**$ 81,860**

[1] Net of income tax recovery of $12,265 and minority interest and participating policyholders' interest of $647
[2] Net of income tax of $30,990 and minority interest and participating policyholders' interest of $7,640

Consolidated Statements of Changes in Shareholders' Equity

(thousands of dollars)

	Years ended December 31, 2007 (Note 2)	2006
Capital stock		
Balance at beginning of year	**$ 272,388**	$ 150,887
Issuance of First Preference Shares, Series 2	**—**	100,000
Deconsolidation of variable interest entities	**—**	21,501
Balance at end of year	**272,388**	272,388
Retained earnings		
Balance at beginning of year	**2,125,333**	1,764,783
Impact of change in accounting standards (Note 2)	**76,394**	—
Net income	**210,688**	372,520
Recovery of refundable dividend taxes	**4,020**	2,832
Dividends (Note 12)	**(12,060)**	(8,497)
Provision for refundable dividend taxes	**(4,661)**	(4,102)
First Preference Shares, Series 2 issuance costs, net of income taxes	**—**	(2,203)
Balance at end of year	**2,399,714**	2,125,333
Accumulated other comprehensive income		
Balance at beginning of year	**—**	—
Impact of change in accounting standards (Note 2)	**157,172**	—
Other comprehensive income (loss)	**(128,828)**	—
Balance at end of year	**28,344**	—
Shareholders' equity	**$ 2,700,446**	$ 2,397,721

Consolidated Statements of Cash Flows

(thousands of dollars)

	Years ended December 31,	
	2007 (Note 2)	2006
Net inflow (outflow) of cash related to the following activities:		
Operating		
Net income	**$ 210,688**	$ 372,520
Items not affecting cash resources:		
Increase in net policy liabilities	**214,707**	240,061
Realized gain on sale of investments	**(241,313)**	—
Gain on sale of investments	**—**	(73,289)
Change in fair value of held for trading investments	**83,317**	—
Future income taxes, excluding items charged to retained earnings	**(26,972)**	11,866
(Income) loss from equity method investment	**24,137**	(52,919)
Change in unrealized appreciation of portfolio investments	**—**	(124,951)
Other items	**(46,474)**	(82,118)
	218,090	291,170
Net change in other assets and liabilities	**(28,641)**	(35,953)
	189,449	255,217
Financing		
Cash dividends to shareholders (Note 12)	**(12,060)**	(8,497)
Issuance of Preference shares, net of issue costs (Note 12)	**—**	96,961
	(12,060)	88,464
Investing		
Purchases of investments	**(2,494,190)**	(2,260,197)
Proceeds from sale of investments	**2,460,842**	1,786,287
Net sales (purchases) of short-term investments	**(19,779)**	49,213
Net sales (purchases) of other assets	**420**	(12,157)
	(52,707)	(436,854)
Increase (decrease) in cash and cash equivalents	**124,682**	(93,173)
Cash and cash equivalents, beginning of year	**196,351**	295,377
Impact of change in accounting standards (Note 2)	**237**	—
Cash, Variable interest entities	**—**	(5,853)
Cash and cash equivalents, end of year (Note 20)	**$ 321,270**	$ 196,351

Notes to Consolidated Financial Statements
(all dollar figures expressed in thousands, except per share amounts)

1. Nature of the business

E-L Financial Corporation Limited (the "Company") is an investment and insurance holding company, publicly traded on the Toronto Stock Exchange and incorporated under the laws of Ontario.

The Company has two operating insurance subsidiaries, The Dominion of Canada General Insurance Company ("The Dominion") and The Empire Life Insurance Company ("Empire"). The Dominion underwrites property and casualty insurance ("General Insurance") while Empire underwrites life and health insurance policies and annuity contracts ("Life Insurance") for individuals and groups. Both subsidiaries are registered under the *Insurance Companies Act, Canada* and operate in most provinces and territories across Canada.

In addition, the Company owns investments in stocks and fixed income securities directly, and indirectly, through pooled funds, closed-end investment companies and other investment companies ("Corporate Investments").

2. Changes in accounting policies

Financial instruments and comprehensive income

Effective January 1, 2007, the Company adopted the provisions of CICA Handbook Sections 3855 *Financial Instruments – Recognition and Measurement*, 3865 *Hedges*, 1530 *Comprehensive Income* and 4211 *Life Insurance Enterprises – Specific Items*. The Company has also elected to early adopt Section 3862 *Financial Instruments – Disclosures* and Section 3863 *Financial Instruments – Presentation*. The Company has elected to use an option in Section 3862 to exclude insurance contracts from the requirements of this section and instead apply Section 3861 *Financial Instruments – Disclosure and Presentation* to such contracts. These standards are required to be adopted without restatement of prior periods. The specific requirements and the impact of the adoption of each of these standards are discussed below.

Previously, the Company measured and reported its Corporate Investments at their fair value with changes in fair value recognized in income in the period in which the change occurred. Investments held by the insurance operations were recorded at cost or amortized cost. The General Insurance operation recognized realized gains and losses on the sale of investments on the date of disposal. The Life Insurance operation amortized unrealized gains and losses on stock and real estate at quarterly rates of 5% and 3%, respectively. Realized gains and losses were deferred and amortized to income at 5% per quarter. Realized gains and losses on bonds and mortgages were deferred and amortized to income over the lesser of the period to maturity or twenty years from the date of sale.

Under the new standards, all financial assets are classified as held for trading, held to maturity, loans and receivables, or available for sale; and all financial liabilities, other than policy liabilities, are classified as held for trading or other financial liabilities. All transactions are recorded on the trade date. Transaction costs are expensed for held for trading instruments and capitalized for all others. Effective January 1, 2007 all derivatives, including embedded derivatives, are recorded at fair value.

Held for trading

Financial assets and financial liabilities that are acquired or incurred principally for the purpose of selling or repurchasing in the near term or which form part of a portfolio with a recent actual pattern of profit taking, as well as non-hedging derivatives, are required to be held for trading. The standard also provides entities with the option (the "fair value option") to designate an instrument as held for trading on its initial recognition even if the financial instrument was not acquired or incurred principally for the purpose of selling or repurchasing in the near term. These instruments are accounted for at fair value with changes in fair value recognized in the consolidated statements of income.

Held to maturity

Financial instruments that have a fixed maturity date and where the Company has the intent and ability to hold to maturity may be classified as held to maturity and accounted for at amortized cost using the effective interest method.

Loans and receivables

Loans are carried at amortized cost using the effective interest method. Realized gains and losses are recognized in the consolidated statements of income in the period in which they occur.

Available for sale

Financial instruments that are not otherwise classified are included in available for sale. Where an instrument has a quoted price in an active market, changes in the fair value of the instrument are recorded as other comprehensive income until realized, or deemed to be other than temporarily impaired, at which time, these gains and losses will be reclassified to the consolidated statements of income. Financial instruments which do not have a quoted price in an active market, including securities whose sale is restricted, are carried at cost. Available for sale instruments carried at cost are still subject to a regular review for losses that are other than temporary.

Comprehensive income

The standards introduce the concept of comprehensive income which consists of net income and other comprehensive income ("OCI"). OCI includes unrealized gains or losses on available for sale financial assets, net of amounts reclassified to the consolidated statements of income, and the effective portion of the change in the fair value of cash flow hedging instruments, all net of taxes. The balance of accumulated other comprehensive income ("AOCI") is shown as a separate component of shareholders' equity.

Transitional adjustments

The impact of the adoption of these accounting changes on each of the Company's operating segments is described below.

Corporate Investments

With the exception of derivative securities and investment securities with an embedded derivative component which are classified as held for trading on transition, the Company classified its entire Corporate Investments portfolio as available for sale. As of January 1, 2007, the Corporate Investments portfolio included $664,527 of equity securities and pooled fund investments which did not have a quoted price in an active market and accordingly, future changes in the unrealized fair value of these securities will not be recognized in the consolidated financial statements.

Insurance operations

The impact of the adoption of this change in accounting policy on the General Insurance and Life Insurance operations differ in various respects.

For the insurance operations, the Office of the Superintendent of Financial Institutions ("OSFI") permits the fair value option only if (a) doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on a different basis; or (b) it is part of a group of financial assets, financial liabilities, or both which are managed and evaluated on a fair value basis, in accordance with a documented risk management or investment strategy and are reported to senior management personnel on that basis.

(all dollar figures expressed in thousands, except per share amounts)

General Insurance operations

The General Insurance operation has designated its investment in bonds and debentures, common shares, preferred shares, short-term investments and cash equivalents as available for sale. Cash was designated as held for trading.

Life Insurance operations

The Life Insurance operation has designated most financial instruments supporting policy liabilities as held for trading. Certain common share assets supporting policy liabilities were designated available for sale as they did not meet the OSFI criteria for held for trading. Mortgage loans, loans on policies and policy contract loans have been designated as loans and receivables and are carried at amortized cost. Empire no longer defers realized gains on financial instruments. On transition, all deferred net realized gains net of taxes supporting policy liabilities have been recorded in retained earnings. The transition to fair value on held for trading assets net of tax has also been recorded in retained earnings.

On transition, policy liabilities were adjusted to consider the transition to fair value of the assets supporting policy liabilities. This adjustment, net of related tax, resulted in a change to retained earnings that largely offset the transition adjustments relating to the assets supporting policy liabilities.

Most assets supporting capital and surplus and miscellaneous insurance liabilities have been designated as available for sale. Subsequent unrealized changes in the fair value of these assets will be recorded in OCI, and reflected in net income only when realized or other than temporarily impaired.

The following table summarizes the adjustments recorded as of January 1, 2007:

	Corporate Investments	General Insurance	Life Insurance	Total
Assets				
Cash and cash equivalents	$ —	$ 237	$ —	$ 237
Portfolio investments	(2,305)	—	—	(2,305)
Investments – insurance operations	—	136,036	547,866	683,902
Other assets	—	(21,971)	(24,031)	(46,002)
Impact on total assets	$ (2,305)	$ 114,302	$ 523,835	$ 635,832
Liabilities				
Policy liabilities	$ —	$ 3,872	$ 564,214	$ 568,086
Deferred realized net gain on investments	—	—	(248,053)	(248,053)
Other liabilities	(391)	1,274	32,790	33,673
Impact on liabilities	(391)	5,146	348,951	353,706
Minority interest and participating policyholders' interest	—	—	48,560	48,560
Retained earnings	—	(120)	76,514	76,394
Accumulated other comprehensive income	(1,914)	109,276	49,810	157,172
Impact on liabilities and shareholders' equity	$ (2,305)	$ 114,302	$ 523,835	$ 635,832

Accounting changes

Effective January 1, 2007, the Company adopted the revised provisions of CICA Handbook Section 1506 *Accounting Changes*. Voluntary changes in accounting policies are made only if they result in reliable and more relevant information. Other than the early adoption of Sections 3862 and 3863, no other voluntary changes have been made in 2007.

Future accounting changes

The CICA issued a new accounting standard, Section 1535 *Capital Disclosures*, which requires the disclosure of both qualitative and quantitative information that enables users of financial statements to evaluate the entity's objectives, policies and processes for managing capital. This new standard is effective for the Company beginning January 1, 2008. Management is still in the process of assessing the nature and extent of disclosures that will be required.

3. Summary of significant accounting policies

Basis of presentation

These consolidated financial statements include the accounts of The Dominion (wholly-owned), E-L Financial Services Limited (81.0% owned) and its 98.3% owned subsidiary company, Empire.

General accounting policies

Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates and changes in estimates are recorded in the accounting period in which they are determined.

Financial instruments

The Company's financial assets are classified as held for trading ("HFT"), available for sale ("AFS"), held to maturity ("HTM") or loans and receivables based on management's intentions or characteristics of the instrument. HFT instruments are carried at fair value in the consolidated balance sheets with changes in the fair value recorded in the consolidated statements of income in the period in which they occur. AFS instruments with a quoted price in an active market are carried at fair value in the consolidated balance sheets. Changes in the fair value of AFS instruments are recorded as other comprehensive income in the consolidated statements of comprehensive income until realized, or deemed to be other than temporarily impaired, at which time, these gains and losses will be reclassified to the consolidated statements of income. AFS assets which do not have a quoted price in an active market are carried at cost. All transactions are recorded on the trade date. Transaction costs are expensed for HFT instruments and capitalized for all others. Loans and receivables are measured at amortized cost using the effective interest rate method.

Investments in securities for which the Company exerts significant influence over but does not control are accounted for using the equity method of accounting.

The Company classifies the majority of its Corporate Investments as AFS. Certain securities which form part of a portfolio with a recent actual pattern of profit-taking, and non-hedging derivatives have been designated as HFT.

The General Insurance operation has designated its investments in bonds and debentures, preferred shares and common shares, short-term investments and cash equivalents as AFS. Cash is classified as HFT. Commercial loans are classified as loans and receivables.

The Life Insurance operation classifies most financial assets supporting policy liabilities as HFT. These assets may be comprised of cash, short-term investments, bonds and debentures, common and preferred shares, futures, forwards and options. Most financial assets supporting capital and surplus and certain common share assets supporting policy liabilities that do not meet the OSFI criteria for HFT are classified as AFS. These assets may be comprised of cash, short-term investments, bonds and debentures or common and preferred shares. Mortgage loans, loans on policies, and policy contract loans have been designated as loans and receivables.

Fair value

Fair value is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. When a financial instrument is initially recognized, its fair value is generally the value of the consideration paid or received. Subsequent to initial recognition, the fair value of a financial asset quoted in an active market is generally the bid price and, for a financial liability quoted in an active market, the fair value is generally the ask price. For securities designated as HFT, in the absence of an active market, fair values may be determined based on prevailing market rates for instruments with similar characteristics and risk profiles or internal or external valuation models. All derivatives, including embedded derivatives that must be separately accounted for, are recorded at fair value. Due to the short-term nature of accrued investment income and premiums receivable, the fair value of these instruments is deemed to equal the carrying value.

Impairment

Management regularly reviews securities classified as AFS and loans and receivables, for evidence of impairment. If a security is deemed to be other than temporarily impaired, the unrealized loss is reclassified from other comprehensive income in the consolidated statement of comprehensive income and recorded as a write down to fair value in the consolidated statements of income. Factors considered in determining whether a loss is temporary include the length of time and extent to which fair value has been below cost, the financial conditions and near-term prospects of the issuer, and the ability and intent to hold the investment for a period of time sufficient to allow for recovery.

Revenue recognition

In the General Insurance operation, premiums are earned on a straight-line basis over the term of the related policies. Premium finance fee income, included in investment and other income, is earned using the effective interest method over the term of the related policies.

In the Life Insurance operation, insurance premiums net of reinsurance and annuity premiums, as well as reinsurance assumed premiums, are generally recorded as revenue when due. Annuity premiums are comprised solely of new deposits on general fund products with a guaranteed rate of return and exclude deposits on segregated fund products. Fee income earned for investment management and administration of the segregated funds, included in investment and other income, is generally calculated and recorded as revenue daily based on closing segregated funds asset market values.

Interest income, recognized using the effective interest method, and dividend income, recognized on the ex-dividend date, is included in investment income in the consolidated statements of income for all financial assets, regardless of classification.

Employee future benefit plans

The Company accrues its obligations for its employee future benefit plans, net of plan assets. The cost of defined benefit pensions and other retirement benefits earned by employees is actuarially determined using the projected benefit method pro-rated on services and using management's best

estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs. For the purpose of calculating the expected return on plan assets, those assets are valued at fair value. Actuarial gains (losses) arise from the difference between actual long-term rate of return on plan assets for a period and the expected long-term rate of return on plan assets for that period or from changes in actuarial assumptions used to determine the accrued benefit obligation. The excess of the net accumulated actuarial gain (loss) over 10% of the greater of the accrued benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees.

Income taxes

Future income tax assets and liabilities are recorded for the expected future income tax consequences of events that have been included in the financial statements or income tax returns. Future income taxes are provided for using the asset and liability method. Under the asset and liability method, future income taxes are recognized for all significant temporary differences between the tax and financial statement bases for assets and liabilities and for certain carry-forward items.

Future income tax assets are recognized only to the extent that, in the opinion of management, it is more likely than not that the future income tax assets will be realized. Future income tax assets and liabilities are adjusted for the effects of changes in tax laws and rates, on the date of the enactment or substantive enactment.

Previously, future income taxes on unrealized appreciation of portfolio investments were recorded with respect to potential future tax liability, measured at substantively enacted tax rates, related to the unrealized appreciation in portfolio investment values.

Deferred acquisition expenses

In the Life Insurance operation, distribution costs of segregated funds having a deferred sales charge, are deferred and amortized over the term of the related deposits or the applicable period of such sales charges, as appropriate. These deferred costs form part of policy liabilities on the consolidated balance sheets and the related amortization forms part of claims and policy benefits on the consolidated statements of income.

Deferred acquisition expenses for the General Insurance operation, comprised primarily of commissions and premium taxes, are amortized on the same basis as the related premiums are earned. The amount deferred is limited to the amount recoverable.

Policy liabilities

Policy liabilities are determined using accepted actuarial practices in accordance with the standards of the Canadian Institute of Actuaries. Annually, each insurance subsidiary obtains an actuarial opinion on the appropriateness of the policy liability amounts recorded in its financial statements. These opinions also incorporate related amounts for reinsurance recoverable and deferred acquisition expenses. The bases used for estimating each of general and Life Insurance policy liabilities are described below.

General Insurance policy liabilities include provisions for unearned premiums and unpaid and unreported claims. The provision for unpaid and unreported claims provides for all costs of investigation and settlement of insurance losses that have occurred prior to the year end, net of anticipated salvage and subrogation. Estimates must be made of the ultimate costs for known or reported claims as well as an estimate for those claims incurred but not yet reported. Many assumptions underlie these estimates, such as claims frequency and severity, claims payment trends, inflation and interest rates, as well as potential changes in legislation and in the interpretation of liability by the courts. Unpaid and unreported claims are valued on a discounted basis, in accordance with accepted actuarial practice.

Life Insurance policy liabilities represent the estimated amount which, together with estimated future premiums and investment income, will be sufficient to fund future benefits, dividends, expenses and taxes on policies in force. The liabilities incorporate management's best estimate assumptions regarding such factors as mortality and morbidity, investment returns, rates of policy terminations, level of operating expenses, inflation, policyholder dividends and taxes. Due to the long-term risks and uncertainties inherent in the Life Insurance business, a margin for adverse deviations from best estimates is calculated separately for each variable and included in policy liabilities.

All changes in policy liability estimates are recorded in claims and policy benefits in the consolidated statements of income in the period in which they occur.

Reinsurance ceded

Reinsurance is ceded to other insurers in order to limit exposure to significant losses. Reinsurance ceded does not relieve the insurance operation of its primary liability. Ceded reinsurance premiums and reinsurance recoveries on claims and policy benefits incurred are recorded as a reduction of the respective income and expense amounts. Estimates of amounts recoverable from reinsurers in respect of insurance policy liabilities and their share of unearned premiums are recorded as reinsurance recoverable on the consolidated balance sheets. Reinsurance recoverable is valued on a discounted basis, in accordance with accepted actuarial practice.

Participating policyholders' interest

Certain life, disability and annuity policies are defined as participating policies by contractual provisions, and are eligible for periodic dividends. The distribution of dividends is made from the earnings attributed to the performance of the participating business.

Segregated funds

The segregated fund asset and liability amounts on the consolidated balance sheets are in respect of investment funds held on behalf of Life Insurance policyholders.

Investments held in the segregated funds are carried at their period end fair values.

Capital assets

Capital assets (furniture, equipment and computer software) are carried at cost less accumulated amortization. Amortization is provided on a straight-line basis over the useful life of the capital assets, which varies from two to seven years. Leasehold improvements are amortized over the related remaining lease term. The General Insurance operation amortizes its building on a five per cent declining balance basis.

Foreign currency translation

Monetary assets and liabilities are translated at period-end exchange rates, and non-monetary assets and liabilities are translated at exchange rates prevailing at the transaction dates. Revenue and expense items are translated at actual rates prevailing during the period.

Comprehensive income

Comprehensive income consists of net income and other comprehensive income ("OCI"). OCI includes unrealized gains or losses on AFS financial assets, net of amounts reclassified to the consolidated statements of income, net of taxes. The balance of accumulated other comprehensive income ("AOCI") is shown as a separate component of shareholders' equity.

(all dollar figures expressed in thousands, except per share amounts)

4. Portfolio investments

The following table provides a comparison of carrying values and fair values for the Company's Corporate Investments segment as at December 31:

	2007					
	Required to be held for trading	Designated as held for trading	Available for sale	Loans and receivables	Total carrying value	Total fair value
Short-term investments	$ —	$ —	$ 28,858	$ —	$ 28,858	$ 28,858
Bonds and debentures	—	—	35,425	—	35,425	35,425
Common and preferred shares	2,701	10,899	1,020,003	—	1,033,603	994,440
Total	$ 2,701	$ 10,899	$ 1,084,286	$ —	$ 1,097,886	$ 1,058,723

	2006	
	Carrying value	Fair value
Short-term investments	$ 2,009	$ 2,009
Bonds and debentures	58,650	58,650
Common and preferred shares	965,516	965,516
Total	$ 1,026,175	$ 1,026,175

Included in the common and preferred shares classified as AFS are $717,184 of securities which do not have a quoted price in an active market and are therefore carried at cost for financial reporting purposes. These holdings are comprised of securities of investment companies and investment funds. The fair value for these entities, $678,021 as at December 31, 2007, reflects the net asset value per share multiplied by the number of shares held. Realization of the fair value of these securities held is dependent in part on the timing of distribution of cash dividends by these entities or the ultimate disposition of the Company's interest in these entities.

The Corporate Investments segment includes investments in several widely held investment funds that are managed by independent third parties. These investments have a carrying value of $316,654 as at December 31, 2007 (2006 - $263,996) and represent significant variable interests in variable interest entities that the Company has not consolidated because it is not the primary beneficiary. In the ordinary course of its business, the Company has made these investments with the primary objective of accumulating shareholder value through the long-term appreciation in the equity holdings of their investment funds.

Management regularly reviews securities classified as AFS for evidence of impairment. In 2007, management recognized other than temporary impairment of $1,033 on securities with a carrying value of $1,879.

(all dollar figures expressed in thousands, except per share amounts)

The following table summarizes the fair value and unrealized losses recognized in AOCI for investments held at December 31, 2007. Management has conducted an evaluation of the portfolio and concluded that the unrealized losses on these securities are primarily due to the timing of the market prices or foreign exchange movements. Accordingly, management does not consider these to be other than temporarily impaired.

	Fair value	Unrealized losses
Bonds	$ 23,894	$ 451
Preferred shares	352	91
Common shares	84,693	20,715
Total	$ 108,939	$ 21,257

The concentration of the Corporate Investments segment's bond portfolio by investment grade is as follows:

	2007		2006	
	Carrying value	Fair value	Carrying value	Fair value
AAA	$ 9,587	$ 9,587	$ 13,712	$ 13,712
AA	4,748	4,748	19,127	19,127
A	18,139	18,139	23,774	23,774
BBB	2,951	2,951	2,037	2,037
	$ 35,425	$ 35,425	$ 58,650	$ 58,650

Bonds and debentures by contractual maturity are as follows:

	2007		2006	
	Carrying value	Fair value	Carrying value	Fair value
1 year or less	$ 751	$ 751	$ 24,856	$ 24,856
1-5 years	16,927	16,927	11,454	11,454
5-10 years	10,289	10,289	10,145	10,145
Over 10 years	7,458	7,458	12,195	12,195
	$ 35,425	$ 35,425	$ 58,650	$ 58,650

(all dollar figures expressed in thousands, except per share amounts)

The financial assets of the Corporate Investment segment are exposed to a variety of market risks including interest rate, foreign currency and other price risk. The impact on net income and other comprehensive income of a reasonably possible change in each of these variables is described below:

- Interest rate – A 1% fluctuation in market interest rates would have an impact of approximately nil on net income and $1,357 on other comprehensive income.
- Foreign currency – The Corporate Investment segment's primary foreign currency exposure is the US dollar. A 10% fluctuation in the USD would have an impact of approximately $180 on net income and $3,116 on other comprehensive income.
- Other price risk - A 10% fluctuation in market prices would have an impact of approximately $1,137 on net income and $25,310 on other comprehensive income.

5. Equity method investment

The Company holds an investment in United Corporations Limited ("United"), a closed-end investment corporation that trades on the Toronto Stock Exchange. As at December 31, 2007, the Company holds 41.49% (2006 - 41.18%) of the outstanding common shares of United. Details of the investment are as follows:

	2007	2006
Balance, beginning of year	$ 331,698	$ 271,712
Purchase of additional shares during the year	2,300	7,067
Income (loss) recognized for the year, using the equity method	(20,119)	56,850
Dividends received during the year	(4,018)	(3,931)
Balance, end of year	$ 309,861	$ 331,698

6. Investments - insurance operations

The carrying values of the investments held by the insurance operations are provided below:

	2007	2006
General Insurance	$ 2,143,828	$ 2,023,477
Life Insurance	3,543,811	2,959,904
	$ 5,687,639	$ 4,983,381

A detailed analysis of the investments of the insurance operations is provided in notes 6(a) and (b).

(all dollar figures expressed in thousands)

(a) General Insurance

The following table provides a comparison of carrying values and fair values for the Company's General Insurance operation:

	2007					
	Required to be held for trading	Designated as held for trading	Available for sale	Loans, receivables and real estate	Total carrying value	Total fair value
Short-term investments	$ —	$ —	$ 40,747	$ —	$ 40,747	$ 40,747
Bonds and debentures	—	—	1,258,378	—	1,258,378	1,258,378
Preferred shares	—	—	93,057	—	93,057	93,057
Common shares	—	—	705,548	—	705,548	701,463
Commercial loans	—	—	—	44,760	44,760	44,760
Real estate	—	—	—	1,338	1,338	4,838
Total	$ —	$ —	$ 2,097,730	$ 46,098	$ 2,143,828	$ 2,143,243

	2006	
	Carrying value	Fair value
Short-term investments	$ 58,985	$ 58,985
Bonds and debentures	1,316,036	1,338,321
Preferred shares	99,095	104,738
Common shares	510,246	634,093
Commercial loans	37,643	37,643
Real estate	1,472	5,095
Total	$ 2,023,477	$ 2,178,875

The Dominion's investment in common shares consists of units in pooled funds which are managed by independent investment managers. These pooled funds contain a minor cash component in addition to the common share holdings. Pooled fund units are valued using Canadian dollar denominated net asset values provided by the custodians of the pooled fund units.

Commercial loans are made to certain independent insurance brokers with whom The Dominion conducts business. Substantially all of these loans are secured by the borrowers' assets, the primary asset being the borrowers' book of business. In some instances, guarantees may be provided by parties related to the borrower in order to enhance the credit quality of the loan. The loan portfolio is monitored throughout the year and an annual review of each borrower's credit worthiness is performed using analytical and other techniques as considered necessary. At the end of the year all commercial loans were in good standing. The maximum exposure to credit risk without any consideration of collateral is the carrying value of the commercial loans of $44,760 (2006 - $37,643).

Real estate is carried at amortized cost and the carrying value is net of accumulated amortization of $1,837 (2006 - $1,860).

(all dollar figures expressed in thousands)

The following table summarizes the fair value and unrealized losses recognized in AOCI for investments held at December 31, 2007. Management has conducted an evaluation of the portfolio and concluded that the unrealized losses on these securities are primarily due to the timing of the market prices or foreign exchange movements. Accordingly, management does not consider these to be other than temporarily impaired and no impairment loss has been recorded.

	Fair value	Unrealized losses
Bonds	$ 595,439	$ 9,556
Preferred shares	35,125	1,841
Common shares	472,902	8,158
Total	$ 1,103,466	$ 19,555

The concentration of the General Insurance operation's bond portfolio by investment grade is as follows:

	2007		2006	
	Carrying value	Fair value	Carrying value	Fair value
AAA	$ 325,779	$ 325,779	$ 446,813	$ 446,629
AA	377,262	377,262	346,384	348,203
A	473,678	473,678	455,284	472,923
BBB	76,715	76,715	66,055	69,056
BB	4,944	4,944	1,500	1,510
Total	$ 1,258,378	$ 1,258,378	$ 1,316,036	$ 1,338,321

Bonds and debentures by contractual maturity are as follows:

	2007		2006	
	Carrying value	Fair value	Carrying value	Fair value
1 year or less	$ 192,624	$ 192,624	$ 282,225	$ 281,578
1-5 years	707,986	707,986	604,809	608,924
5-10 years	219,461	219,461	248,753	254,080
Over 10 years	138,307	138,307	180,249	193,739
Total	$ 1,258,378	$ 1,258,378	$ 1,316,036	$ 1,338,321

The financial assets of the General Insurance operation are exposed to a variety of market risks including interest rate, foreign currency and other price risk. The impact on net income and other comprehensive income of a reasonably possible change in each of these variables is described below:

- Interest rate – A 1% fluctuation in market interest rates would have an impact of approximately nil on net income and $31,183 on other comprehensive income.
- Foreign currency – The General Insurance operation's primary foreign currency exposure is the US dollar. A 10% fluctuation in the USD would have an impact of approximately nil on net income and $22,005 on other comprehensive income.
- Other price risk - A 10% fluctuation in market prices would have an impact of approximately nil on net income and $55,332 on other comprehensive income.

(all dollar figures expressed in thousands)

(b) Life Insurance

The following table provides a comparison of carrying values and fair values for the Company's Life Insurance operation as at December 31:

	2007					
	Required to be held for trading	Designated as held for trading	Available for sale	Loans, receivables and real estate	Total carrying value	Total fair value
Short-term investments	$ —	$ 1,998	$ 32,834	$ —	$ 34,832	$ 34,832
Bonds	14,859	2,057,169	234,476	—	2,306,504	2,306,504
Mortgages	—	—	—	248,041	248,041	253,697
Preferred shares	—	122,888	23,580	—	146,468	146,468
Common shares	146,711	—	463,289	—	610,000	610,037
Real estate	—	—	—	14,787	14,787	14,090
Loans on policies	—	—	—	34,812	34,812	34,812
Policy contract loans	—	—	—	148,367	148,367	148,367
Total	$ 161,570	$ 2,182,055	$ 754,179	$ 446,007	$ 3,543,811	$ 3,548,807

	2006	
	Carrying value	Fair value
Short-term investments	$ 24,500	$ 24,500
Bonds	1,811,483	2,248,005
Mortgages	232,296	240,795
Preferred shares	153,773	161,992
Common shares	486,048	618,675
Real estate	10,234	12,405
Loans on policies	41,251	41,251
Policy contract loans	156,017	156,017
Amortized unrealized gains on investments	44,302	—
Total	$ 2,959,904	$ 3,503,640

Due to the nature of loans on policies and policy contract loans, fair values are assumed to be equal to carrying value.

Assets classified as loans and receivables have been reviewed for possible impairment. As a result of this review, mortgages with a recorded value of $10,259 (2006 - $11,522), have been reduced by an allowance for impairment of $2,466 (2006 - $2,845) and policy contract loans with a recorded value of $813 (2006 - $813) have been reduced by an allowance for impairment of $618 (2006 – $618). The Life Insurance operation holds collateral of $8,221 in respect of these mortgages and $195 in respect of these policy loans. Policy loans are secured by a Life Insurance policy. The Life Insurance operation has recorded interest income of $983 on these assets.

Management regularly reviews securities classified as AFS for evidence of impairment. In 2007, management recognized other than temporary impairment of $4,381 on securities with a carrying value of $15,734.

(all dollar figures expressed in thousands)

The following table summarizes the fair value and unrealized losses recognized in AOCI for investments held at December 31, 2007. Management has conducted an evaluation of the portfolio and concluded that the unrealized losses on these securities are primarily due to the timing of the market prices or foreign exchange movements. Accordingly management does not consider these to be other than temporarily impaired.

	Fair value	Unrealized losses
Bonds	$ 133,973	$ 1,466
Preferred shares	23,580	1,653
Common shares	134,596	7,025
Total	$ 292,149	$ 10,144

The concentration of the Life Insurance operation's bond portfolio by investment grade is as follows:

	2007		2006	
	Carrying value	Fair value	Carrying value	Fair value
AAA	$ 112,290	$ 112,290	$ 92,837	$ 95,479
AA	1,025,060	1,025,060	799,003	1,041,441
A	1,084,590	1,084,590	851,201	1,033,866
BBB	79,614	79,614	68,442	77,219
BB	4,950	4,950	—	—
Total	$ 2,306,504	$ 2,306,504	$ 1,811,483	$ 2,248,005

Bonds and debentures by contractual maturity are as follows:

	2007		2006	
	Carrying value	Fair value	Carrying value	Fair value
1 year or less	$ 18,489	$ 18,489	$ 89,215	$ 89,246
1-5 years	245,257	245,257	167,889	169,028
5-10 years	252,124	252,124	225,857	254,549
Over 10 years	1,790,634	1,790,634	1,328,522	1,735,182
Total	$ 2,306,504	$ 2,306,504	$ 1,811,483	$ 2,248,005

(all dollar figures expressed in thousands, except per share amounts)

The financial assets of the Life Insurance operation are exposed to a variety of market risks including interest rate, foreign currency and other price risk. For financial assets matching policy liabilities, the exposure to these risks in its financial assets is generally offset by a corresponding exposure to these risks in its policy obligations. As the policy liability for these policy obligations is calculated based on market value, increases and decreases in these risk variables affect both investment income and the change in policy liabilities. The impact on net income and other comprehensive income of a reasonably possible change in each of these variables is described below:

- Interest rate – A 1% fluctuation in market interest rates would have an impact of approximately nil on net income and $4,149 on other comprehensive income.
- Foreign currency – The Life Insurance operation's primary foreign currency exposure is the US dollar. A 10% fluctuation in the USD would have an impact of approximately nil on net income and $2,861 on other comprehensive income. The Life Insurance operation has no significant foreign currency exposure in its financial liabilities.
- Other price risk - A 10% fluctuation in market prices would have an impact of approximately $7,329 on net income and $24,432 on other comprehensive income.

7. Composition of certain revenue items

Investment and other income is comprised of the following:

	2007	2006
Interest income	$ 214,135	$ 203,507
Fee income	105,047	81,028
Dividend income	60,726	53,273
Real estate income	1,215	1,083
Mark to market increase from financial instruments used for matching purposes	—	25,372
Other	13,788	10,604
	$ 394,861	$ 374,867

Included in interest income is $116,165 relating to assets not classified as HFT.

Composition of change in fair value of held for trading investments:

	2007
Change in fair value of instruments required to be classified as HFT	$ (34,531)
Change in fair value of instruments designated as HFT	(48,786)
	$ (83,317)

(all dollar figures expressed in thousands, except per share amounts)

8. Policy liabilities

Policy liabilities are comprised of:

	2007			2006		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
General Insurance unearned premiums provision	$ 504,860	$ 7,951	$ 496,909	$ 507,572	$ 8,265	$ 499,307
General Insurance unpaid and unreported claims provision	1,412,584	71,481	1,341,103	1,297,275	68,860	1,228,415
Life Insurance benefits and expense provision	3,133,070	120,525	3,012,545	2,466,505	106,473	2,360,032
	$5,050,514	$ 199,957	$4,850,557	$4,271,352	$ 183,598	$4,087,754

General Insurance unearned premiums provision represents the portion of premiums that relate to the unexpired term of underlying insurance policies. These amounts are determined to be sufficient to fund anticipated claims and expenses.

The General Insurance unpaid and unreported claims provision does not include amounts for claims where obligations to claimants have been settled by the purchase of annuities from Life Insurance companies. The General Insurance operation guarantees the life insurers' obligations under these annuities which are estimated to be $195,000 (2006 - $180,000) based on the net present value of the projected future cash flows of these guarantees in 2007. The Company considers the credit risk of such guarantees to be insignificant.

In the absence of an active market for the sale of claims liabilities, the actuarially discounted carrying values for the General Insurance unpaid and unreported claims and reinsurance recoverable provide a reasonable approximation of fair value.

The change in net policy liabilities, excluding the General Insurance unearned premium provision, related to General Insurance is outlined below:

	2007	2006
General Insurance		
Balance, beginning of year	$1,228,415	$1,120,858
Impact of change in accounting standards (Note 2)	3,360	—
Change in prior years' claims estimates	(54,445)	(30,917)
Interest cost	45,086	39,218
Impact of change in discount rate	(510)	(5,350)
Current year claims incurred	724,524	641,066
Claims payments	(605,327)	(536,460)
Balance, end of year	$1,341,103	$1,228,415

(all dollar figures expressed in thousands, except per share amounts)

The 2007 favourable prior year claims development of $54,445 consists of: $32,080 favourable in automobile lines, attributable to better than expected experience primarily relating to accident benefit claims and third-party bodily injury claims arising in accident years 2001 to 2006; $4,310 favourable in personal property reflecting better than expected experience from various accident years; and $18,055 favourable in commercial property and casualty, arising partly from better than expected experience on property and general liability claims occurring in various recent years, and partly from further positive developments related to the claims that accounted for most of the favourable development recognized in 2006 relating to the abuse claims from residential schools from mainly 1959 to 1967. The favourable development of $30,917 recognized in 2006 consisted of: $12,558 favourable in automobile lines, mainly for improved third party bodily injury estimates from claims occurring mostly in 2005; $4,431 unfavourable in personal property for homeowners' personal liability estimates of recent years; and $22,790 favourable in commercial property and casualty, roughly half of which derives from reduced estimates for abuse claims from residential schools from mainly 1959 to 1967 and the other half from better than expected experience on recent years for commercial property and general liability claims.

The change in net policy liabilities related to Life Insurance operations is outlined below:

	2007	2006
Life Insurance		
Balance, beginning of year	$ 2,360,032	$ 2,216,666
Impact of change in accounting standards (Note 2)	544,736	—
Changes in methods and assumptions	2,131	7,900
Normal changes - new business	145,073	152,100
- in-force business	(39,427)	(16,634)
Balance, end of year	$ 3,012,545	$ 2,360,032

The changes in actuarial methods and assumptions in 2007 include a net decrease of $21,376 to reflect improving mortality experience, a net increase of $19,970 to reflect decreases in portfolio rates and assumed reinvestment rates, a net increase of $8,492 to reflect updated lapse assumptions and a net decrease of $6,476 to reflect decreases in unit costs. The net impact of other changes amounted to a net increase of $1,521.

The provisions described above are estimates and accordingly, the actual amounts that are ultimately incurred will differ. The likelihood of significant differences from amounts currently provided increases with the length of the time until the settlement amounts of claims and the timing of other benefits are established. A significant proportion of the Company's policy liabilities are long-term. Management of the Company is satisfied that current estimates constitute a prudent assessment of these liabilities. Valuation assumptions are reviewed and updated at least annually and the impact of changes in those assumptions is reflected in earnings in the year of the change.

(all dollar figures expressed in thousands, except per share amounts)

9. Other assets

Other assets are comprised of the following:

	2007	2006
Due from Facility Association	$ 9,059	$ 19,726
Capital assets, at cost (net of accumulated amortization of $61,518 (2006 - $53,221))	43,119	39,108
Due from reinsurance companies	21,510	5,396
Pension asset (Note 15)	3,363	4,672
Other	18,588	24,356
	$ 95,639	$ 93,258

The Facility Association is an automobile insurance market of last resort for higher risk drivers. Results are pooled and mandatorily shared among auto insurers. Due from Facility Association represents the General Insurance operation's share of the assets of the Facility Association which are available to fund a portion of the General Insurance operation's share of Facility Association policy liabilities which are included in policy liabilities and deferred acquisition expenses in the consolidated balance sheets.

10. Other liabilities

	2007	2006
Accounts payable	$ 64,434	$ 76,057
Bank indebtedness	43,515	23,049
Accrued employee future benefit liabilities (Note 15)	21,630	16,584
Unearned premium finance fee income	4,658	7,281
Other	43,108	39,649
	$ 177,345	$ 162,620

11. Reinsurance

In the normal course of business, the insurance subsidiaries cede reinsurance to other insurers in order to limit exposure to significant losses. Reinsurance does not relieve the insurance subsidiaries of their primary liability as the originating insurer. Reinsurance treaties typically renew annually and the terms and conditions are reviewed by senior management and reported to the insurance subsidiaries' Boards. Only reinsurers with an acceptable credit rating are accepted in the reinsurance programs. Based on ongoing monitoring, the insurance subsidiaries assess the credit risk associated with the reinsurance recoverable to be insignificant.

The General Insurance operation's exposure to claims was limited as follows: $3,000 for an automobile claim; $2,000 for personal and commercial property claims; $1,750 for a casualty claim; and $2,500 for a surety claim. The General Insurance operation also has a catastrophe reinsurance arrangement providing coverage up to $500,000, in the event of a series of claims arising out of a single occurrence, under which the General Insurance operation is responsible for the first $15,000 plus 2.5% of the first $60,000 of claims exceeding that retention level. The Life Insurance operation's exposure to claims is limited to $500 on any one life. These reinsurance arrangements are reflected in the consolidated statements of income as a reduction of $95,281 (2006 - $90,549) in insurance premiums.

12. Shareholders' equity

The authorized classes of share capital at December 31, 2007 are as follows:

- 402,733 Preference Shares, issuable in series;
- Unlimited First Preference Shares, issuable in series; and
- Unlimited Common Shares.

The directors have designated the first series of Preference Shares as Series A Convertible ("Series A Preference Shares"). The Series A Preference Shares are convertible, at the shareholder's option, in perpetuity into Common Shares on a share for share basis and are entitled, when and if declared, to a non-cumulative dividend of $0.50 per share per annum.

The Series A Preference Shares and Common Shares are each entitled to one vote per share.

The First Preference Shares of each series rank pari passu with every other series of First Preference Shares and in priority to the Common Shares and the Series A Preference Shares of the Company with respect to the payment of dividends and the distribution of assets on the dissolution, liquidation or winding up of the Company. As of December 31, 2007 there were two series of First Preference Shares outstanding, the First Preference Shares, Series 1 and the First Preference Shares, Series 2. The First Preference Shares, Series 1 and the First Preference Shares, Series 2, are non-voting unless there has been a specified default in the payment of dividends or to approve of modifications attending to the series of shares.

The First Preference Shares, Series 1 are entitled to fixed non-cumulative preferential cash dividends at a rate equal to $1.325 per share per annum. On and after October 17, 2009, the Company may redeem for cash the First Preference Shares, Series 1 in whole or in part, at the Company's option, at $26.00 per share if redeemed prior to October 17, 2010, $25.75 if redeemed thereafter and prior to October 17, 2011, $25.50 if redeemed thereafter and prior to October 17, 2012, $25.25 if redeemed thereafter and prior to October 17, 2013 and $25.00 if redeemed thereafter, in each case together with all declared and unpaid dividends.

On and after October 17, 2009, the Company may convert all or any part of the outstanding First Preference Shares, Series 1 into that number of Common Shares determined by dividing by the then applicable redemption price, together with all declared and unpaid dividends to the date of conversion, by the greater of $1.00 and 95% of the weighted average trading price of the Common Shares on the Toronto Stock Exchange for the 20 consecutive trading days ending on the fourth day prior to the conversion dates.

On October 17, 2006, the Company issued 4,000,000 of a second series of First Preference Shares (the "First Preference Shares, Series 2") having a dividend rate of 4.75%, at a price of $25.00 per share, for aggregate gross proceeds of $100,000,000. The net proceeds of the issue were for general corporate purposes.

The First Preference Shares, Series 2 are entitled to fixed non-cumulative preferential cash dividends at a rate equal to $1.1875 per share per annum. First Preference Shares, Series 2 will not be redeemable prior to October 17, 2011. On and after October 17, 2011, the Company may redeem for cash the First Preference Shares, Series 2 in whole or in part, at the Company's option, at $26.00 per share if redeemed prior to October 17, 2012, $25.75 if redeemed thereafter and prior to October 17, 2013, $25.50 if redeemed thereafter and prior to October 17, 2014, $25.25 if redeemed thereafter and prior to October 17, 2015 and $25.00 if redeemed thereafter, in each case together with all declared and unpaid dividends.

(all dollar figures expressed in thousands, except per share amounts)

On and after October 17, 2011, the Company may convert all or any part of the outstanding First Preference Shares, Series 2 into that number of Common Shares determined by dividing by the then applicable redemption price, together with all declared and unpaid dividends to the date of conversion, by the greater of $1.00 and 95% of the weighted average trading price of the Common Shares on the Toronto Stock Exchange for the 20 consecutive trading days ending on the fourth day prior to the conversion dates.

The share capital of the Company is as follows:

	2007	2006
4,019,409 Common Shares	$ 72,387	$ 72,387
4,000,000 First Preference Shares, Series 1	100,000	100,000
4,000,000 First Preference Shares, Series 2	100,000	100,000
258 Series A Convertible Preference shares	1	1
	$ 272,388	$ 272,388

Cash dividends during the year are as follows:

	2007	2006
Series A Convertible Preference Shares, $0.50 per share	$ —	$ —
First Preference Shares, Series 1, $1.325 per share	5,300	5,300
First Preference Shares, Series 2 $1.1875 (2006 - $0.296875) per share	4,750	1,187
Common Shares, $0.50 per share	2,010	2,010
	$ 12,060	$ 8,497

Shareholders' entitlement to $4,719 (2006 - $3,836) of shareholders' equity is contingent upon future payment of dividends to participating Life Insurance policyholders.

Net income per share has been calculated by dividing net income for the year, less dividends paid on preference shares, by the amount equal to the total number of Common Shares outstanding of 4,019,409 less 691,814 (2006 - 691,049), which is the Company's proportionate interest in its own common shares held indirectly. For the year, the Company paid out a dividend of $0.50 per share on each of its Common Shares. When calculated on the basis of the reduced number of Common Shares caused by the elimination of the reciprocal holdings, the dividend is $0.60 (2006 - $0.60) per share.

The following is a reconciliation of the numerators and the denominators of the basic and diluted income per Common Share computations:

	2007	2006
Net income	$ 210,688	$ 372,520
Dividends on First Preference Shares	(10,050)	(6,487)
Net income available to Common Shareholders	$ 200,638	$ 366,033
Weighted number of Common Shares outstanding - basic	3,327,853	3,328,618
Dilutive effect of convertible First Preference Shares into Common Shares	344,800	245,991
Weighted number of Common Shares outstanding - diluted	3,672,653	3,574,609

(all dollar figures expressed in thousands, except per share amounts)

13. Income taxes

The combined statutory Canadian federal and provincial tax rate applicable to the Company and its subsidiaries in 2007 approximates 35.4% (2006 - 36.7%). Income taxes are assessed on operating income after deducting premium taxes and investment taxes. The effective tax rate varies from the combined statutory rate as follows:

	2007	2006
Income taxes at statutory rate	$ 98,145	$ 192,660
Variance as a result of:		
Tax-paid dividends	(15,983)	(14,411)
Non-taxable portion of capital gains	(23,632)	(61,669)
Substantively enacted changes in income tax rates	(416)	4,556
Other	1,691	(1,637)
Income tax provision	$ 59,805	$ 119,499

The Company's income tax expense includes provisions for current and future taxes as follows:

	2007	2006
Current	$ 86,777	$ 107,633
Future	(26,972)	11,866
	$ 59,805	$ 119,499

In certain instances the tax basis of assets and liabilities differs from the carrying amount. These differences which will give rise to future income taxes are reflected in the consolidated balance sheet as follows:

	2007	2006
Investments	$ (198,813)	$ 63,602
Policy liabilities	131,919	(2,511)
Other	13,728	5,062
Future income taxes receivable (payable)	$ (53,166)	$ 66,153

Recorded as:

	2007	2006
Future income tax asset	$ 20,180	$ 130,965
Future income tax liability	(73,346)	(64,812)
	$ (53,166)	$ 66,153

During 2007, the Company and its subsidiaries paid income tax instalments totalling $92,464 (2006 - $126,802) and received income tax refunds totaling $8,106 (2006 - $6,958).

(all dollar figures expressed in thousands, except per share amounts)

Under the *Income Tax Act*, the Company is subject to a 33 1/3% refundable tax on certain Canadian dividends received. This tax will be refunded to the Company at a rate of $1.00 for every $3.00 of taxable dividends paid in the future. The accumulated amount of refundable dividend tax at December 31, 2007 amount to $8,189 (2006 - $7,533). The potential benefit of this amount has not been reflected in these consolidated financial statements.

14. Analysis of net income

Components of net income, each net of policyholders' and minority shareholders' interest, is as follows:

	2007	2006
Income excluding undernoted	$ 91,717	$ 141,093
Amortization of investment gains and losses	—	25,590
Gain on sale of investments	—	59,780
Realized gain on available for sale investments	133,562	—
Income (loss) from equity method investment	(14,591)	48,874
Change in unrealized appreciation of portfolio investments	—	97,183
	$ 210,688	$ 372,520

15. Employee future benefit plans

Pension benefit plans include defined benefit plans available to certain employee and executive groups, as well as certain defined benefits elected to be retained on conversion of The Dominion's defined benefit plan to a money purchase plan in 1994. The Company and its subsidiaries also provide for post-retirement health and dental care coverage and other future benefits to qualifying employees and retirees.

Total cash payments by the Company and its subsidiaries for employee future benefits for 2007, consisting of cash contributed to its funded pension plans, cash payments directly to beneficiaries under its unfunded other benefit plans, cash contributed to its defined contribution plan and payments to third party service providers on behalf of the employees was $5,642 (2006 - $4,817).

Notes to Consolidated Financial Statements
(all dollar figures expressed in thousands, except per share amounts)

The following tables present financial information for the Company and its subsidiaries' defined benefit plans:

	Pension Benefit Plans		Other Benefit Plans	
	2007	2006	2007	2006
Accrued benefit obligation				
Balance at beginning of year	$ 145,308	$ 127,429	$ 27,631	$ 23,381
Current service cost	6,015	5,692	1,307	1,311
Employee contributions	1,768	1,603	—	—
Interest cost	7,492	7,059	1,412	1,423
Benefits paid	(5,238)	(4,452)	(759)	(694)
Actuarial loss (gain)	(10,908)	7,977	(669)	2,210
Curtailment loss (gain)	(169)	—	(3,379)	—
Special termination benefit costs	1,304	—	—	—
Plan amendments	—	—	(2,232)	—
Balance at end of year	$ 145,572	$ 145,308	$ 23,311	$ 27,631
Plan assets				
Fair value at beginning of year	$ 144,184	$ 130,184	$ —	$ —
Actual return on plan assets	4,856	15,612	—	—
Employer contributions	1,770	1,237	—	—
Employee contributions	1,768	1,603	—	—
Purchase of annuity for ad-hoc pension increase	(263)	—	—	—
Benefits paid	(4,976)	(4,452)	—	—
Fair value at end of year	$ 147,339	$ 144,184	$ —	$ —
Funded status - plan surplus (deficit)	$ 1,767	$ (1,124)	$ (23,311)	$ (27,631)
Unamortized net actuarial loss (gain)	2,415	9,679	3,926	8,555
Unamortized transitional obligation (asset)	(4,223)	(4,799)	1,159	3,408
Accrued benefit asset (liability)	$ (41)	$ 3,756	$ (18,226)	$ (15,668)
Recorded in the consolidated balance sheet as:				
Other assets	$ 3,363	$ 4,672	$ —	$ —
Other liabilities	(3,404)	(916)	(18,226)	(15,668)
Accrued benefit asset (liability)	$ (41)	$ 3,756	$ (18,226)	$ (15,668)

Included in the previous figures are defined benefit obligations in excess of plan assets as at December 31 as follows:

	Pension Benefit Plans		Other Benefit Plans	
	2007	2006	2007	2006
Accrued pension obligation	$ 15,805	$ 14,721	$ 23,311	$ 27,631
Plan assets at fair value	$ 11,707	$ 10,980	$ —	$ —

(all dollar figures expressed in thousands, except per share amounts)

The employee future benefit costs concerning the Company and its subsidiaries' defined benefit plans included in the Company's consolidated statements of income are as follows:

	Pension Benefit Plans		Other Benefit Plans	
	2007	2006	2007	2006
Annual net benefit cost (income)				
Current service cost	$ 6,015	$ 5,692	$ 1,307	$ 1,311
Interest cost	7,492	7,059	1,412	1,423
Actual return on plan assets	(4,856)	(15,612)	—	—
Actuarial loss (gain)	(10,908)	7,977	(669)	2,210
Curtailment loss (gain)	(169)	—	(473)	—
Special termination benefit costs	1,304	—	—	—
Plan amendments	—	—	(2,232)	—
Employee future benefit cost (income) prior to adjustments to recognize long-term nature	(1,122)	5,116	(655)	4,944
Adjustments to recognize long-term nature:				
Difference between expected return and actual return on plan assets	(4,109)	7,291	—	—
Difference between net actuarial loss (gain) recognized and actual actuarial loss (gain)	11,371	(8,441)	1,076	(1,619)
Difference between plan amendments recognized and actual plan amendments	—	—	2,232	—
Amortization of transitional obligation (asset)	(576)	226	665	666
Net benefit cost recognized for the year	$ 5,564	$ 4,192	$ 3,318	$ 3,991

For pension benefit plans, the net benefit cost recognized for the period includes a special termination benefit of $1,304 (2006 - nil) and a curtailment gain of $169 (2006 - nil) in connection with a voluntary early retirement offered to eligible employees.

For other benefit plans, the net benefit cost recognized for the period includes a curtailment gain of $473 (2006 - nil) in connection with changes to post-retirement health and dental care coverage offered to eligible employees retiring in the years 2013-2017, and the change to fully retiree paid benefits for employees retiring thereafter. These changes also resulted in a reduction of the accrued benefit obligation due to a curtailment gain of $3,379 (2006 - nil) and a plan amendment gain of $2,232 (2006 - nil).

The Company measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year. The most recent and next required actuarial valuation of the Company and its subsidiaries' employee future benefit plans is as follows:

	Recent Valuation Date	Next Valuation Date
Staff Pension Plan (The Dominion)	January 1, 2006	January 1, 2009
Staff Pension Plan (other than The Dominion)	December 31, 2005	December 31, 2008
Executive Pension Plan (The Dominion)	September 30, 2007	September 30, 2008
Supplemental Employee Retirement Plan	December 31, 2007	December 31, 2008
Retiree Health Benefits (The Dominion)	January 1, 2006	January 1, 2009
Retiree Health Benefits (other than The Dominion)	December 31, 2005	December 31, 2008

(all dollar figures expressed in thousands, except per share amounts)

The average remaining service period of the active employees covered by the pension benefit and other benefit plans as at December 31 is as follows:

	2007	2006
Staff Pension Plan (The Dominion)	7 years	8 years
Staff Pension Plan (other than The Dominion)	22 years	22 years
Executive Pension Plan (The Dominion)	15 years	17 years
Supplemental Employee Retirement Benefit Plan	14 years	16 years
Retiree Health Benefits (The Dominion)	11 years	11 years
Retiree Health Benefits (other than The Dominion)	16 years	16 years

The following weighted average assumptions were used in actuarial calculations:

	Pension Benefit Plans		Other Benefit Plans	
	2007	2006	2007	2006
Accrued benefit obligation as of December 31:				
Discount rate	5.5%	5.0%	5.4%	5.2%
Rate of compensation increase	4.1%	4.0%	N/A	N/A
Benefit costs for years ended December 31:				
Discount rate	5.0%	5.0%	5.2%	5.1%
Expected long-term rate of return on plan assets	6.3%	6.5%	N/A	N/A
Rate of compensation increase	4.1%	4.0%	N/A	N/A
Assumed health care cost trend rates at December 31:				
Initial health care cost trend rate	N/A	N/A	6.5%	7.2%
Cost trend rate declines to	N/A	N/A	4.3%	4.3%
Year ultimate rate reached	N/A	N/A	2011	2012

A one-percentage-point change in assumed health care cost trend rates would have the following effects for 2007:

	Increase	Decrease
Annual total service and interest cost	$ 685	$ (496)
Accrued benefit obligation	3,335	(2,686)

Plan assets consist of the following asset categories:

	Percentage of Plan Assets	
	2007	2006
Equity securities	54%	55%
Debt securities	36%	35%
Refundable tax deposits and cash	10%	10%
	100%	100%

The Company and its subsidiaries also maintain money purchase staff pension plans available to employees. The total cost recognized for the period relating to these plans was $3,101 (2006 - $2,873).

(all dollar figures expressed in thousands, except per share amounts)

16. Segmented information

In managing its investments, the Company distinguishes between its Corporate Investments, its investment in General Insurance (The Dominion) and its investment in Life Insurance (Empire).

	2007			
	Corporate Investments	The Dominion	Empire	Total
Premium income	$ —	$ 998,882	$ 631,326	$1,630,208
Change in fair value of held for trading investments	1,032	—	(84,349)	(83,317)
Realized gain on investments held for trading	4,082	—	61,834	65,916
Realized gain on available for sale investments	16,158	120,361	38,878	175,397
Investment and other income	29,399	95,599	269,863	394,861
Loss from equity method investment	(20,119)	—	—	(20,119)
Taxes	3,512	76,898	29,000	109,410
Policyholders' and minority shareholders' portion of income	—	—	7,110	7,110
Segment net income	22,497	144,589	43,602	210,688
Segment assets	1,435,166	2,817,234	3,988,588	8,240,988

	2006			
	Corporate Investments	The Dominion	Empire	Total
Premium income	$ —	$1,026,997	$ 601,873	$1,628,870
Amortization of investment gains	—	—	61,967	61,967
Gain on sale on investments	17,365	55,924	—	73,289
Investment and other income	24,564	91,466	258,837	374,867
Income from equity method investment	56,850	—	—	56,850
Change in unrealized appreciation of portfolio investments	124,951	—	—	124,951
Taxes	25,297	99,375	42,901	167,573
Policyholders' and minority shareholders' portion of income	16,742	—	16,386	33,128
Segment net income	177,229	149,523	45,768	372,520
Segment assets	1,373,625	2,629,544	3,355,443	7,358,612

(all dollar figures expressed in thousands, except per share amounts)

17. Commitments

Future minimum payments under operating leases and other commitments are as follows:

2008	$ 16,642
2009	13,739
2010	11,628
2011	9,074
2012	6,005
Thereafter	12,473
	$ 69,561

18. Risk management

The Company and its subsidiaries, The Dominion and Empire, face various risk factors, inherent in their activities, including risk factors unique to insurance operations. These risk factors and their management are described below.

Credit risk, liquidity risk, and market risk

Credit risk is the risk of financial loss resulting from a counterparty's failure to discharge an obligation. Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. Market risk includes exposure to fluctuations in interest rates, currency rates and the fair value or cash flows of the Company's investments.

The management of investments is conducted in accordance with investment policies that are approved by the Board of Directors. Management's application of these policies is regularly monitored by Board committees. Management and Board committees review credit quality of investment purchases and also monitor the credit quality of invested assets over time.

The management of investments is key to matching policy liabilities and earning an appropriate return on investments matched to equity.

The Dominion's executives manage liquidity relative to the anticipated pay-out patterns of General Insurance claims and, within those constraints, aim to maximize investment income.

Empire's financial, actuarial and investment executives meet regularly throughout each year to monitor the matching of investments to policy liabilities. This process is designed to ensure that interest rate and liquidity risks are managed appropriately.

Pricing risk

The Dominion and Empire price their products with the intention of achieving appropriate profitability in the course of assuming obligations that are uncertain due to a number of factors, including the prospect that they may take many years to settle.

The Dominion is exposed to uncertainties involving claims frequency and severity, claims payment trends, investment returns as well as potential changes in legislation and in the interpretation of liability by the courts. Empire is exposed to uncertainties involving mortality, investment returns, expense levels and lapsing of policies.

Product pricing is established through consideration of the companies' actuarial assessments of current claims exposures and anticipated trends in the risk factors described above.

In addition, The Dominion and Empire establish policies regarding the amount of risks underwritten which they are prepared to retain, taking into consideration the risk to their available equity. Amounts in excess of that retention are reinsured with external reinsurers.

(all dollar figures expressed in thousands, except per share amounts)

Business risks

The Company faces a broad range of business risks including: internal control risks; consumer risks related to sales practices; distribution risks; ongoing strong competition in the insurance marketplace; regulatory constraints on automobile insurance pricing; risk of interest rates persisting at levels significantly lower than today's rates; adverse mortality; and various forms of litigation.

The Company and its Board of Directors monitor risks on an ongoing basis, requiring regular reports from management on all key developments and on how planning and other control procedures are being applied to identify and minimize such risks.

To date the Company has not experienced any material adverse effects from such business risks and believes its control procedures will minimize the exposure to such risks in the future.

19. Derivative financial instruments

In the ordinary course of business, the Life Insurance operation has policy obligations which have a savings component that varies with a variety of indices and currencies. The financial instruments used for matching this liability include various futures contracts and foreign currency forward contracts. In addition, the Life Insurance operation may use futures contracts and foreign currency forward contracts in its shareholders' and policyholders' equity account. The Life Insurance operation may also use other equity derivative contracts as part of a portfolio of assets to match policy liabilities as to duration and amounts.

In addition the Corporate Investments includes foreign currency forwards and equity options in its HFT portfolio. The notional value of these contracts was $33,822 at December 31, 2007.

The notional amounts of these financial instruments are not recognized on the balance sheet. Notional amounts are the contract amounts used to calculate the cash flows to be exchanged. They are a common measure of volume of outstanding transactions, but do not represent credit or market risk exposures.

All contracts mature in less than 1 year except for other equity contracts which mature in 1 to 5 years.

In the Company's opinion, these positions, which are actively monitored, do not represent any unusual risk and no significant losses are anticipated.

	2007			2006		
	Notional	Fair Value		Notional	Fair Value	
	Amount	Positive	Negative	Amount	Positive	Negative
Exchange-traded						
Equity index futures	$ 15,387	$ 165	$ 162	$ 15,678	$ 453	$ 16
Over-the-counter						
Foreign currency forwards	86,019	1,054	885	37,180	118	717
Other equity contracts	12,756	1,137	—	8,346	—	475
Total	$ 114,162	$ 2,356	$ 1,047	$ 61,204	$ 571	$ 1,208

(all dollar figures expressed in thousands, except per share amounts)

20. Cash and cash equivalents

Cash equivalents are comprised of treasury bills, commercial paper and bankers' acceptances with maturities of three months or less at the date of acquisition. Components of cash and cash equivalents for purposes of the consolidated statements of cash flows are as follows:

	2007	2006
Cash	$ 6,116	$ 2,980
Cash equivalents	358,669	216,420
	364,785	219,400
Bank indebtedness	(43,515)	(23,049)
	$ 321,270	$ 196,351

Bank indebtedness is included in other liabilities on the consolidated balance sheets.

21. Government regulation of automobile insurance

The Dominion's generation of revenue from underwriting automobile risks is impacted by the regulation of certain automobile premium rates by the governments of Alberta, Ontario, Nova Scotia, New Brunswick, Prince Edward Island and Newfoundland.

Provincial government rate regulatory approval processes can result in the prescription of premium rates other than those The Dominion deems appropriate for the risks to be underwritten. The Dominion's exposure to such prescribed rates is increased in the provinces of Ontario, Alberta and Newfoundland where The Dominion is required to provide coverage for substantially all risks presented to it, commonly referred to as the "all comers rules".

The Dominion is required by regulation to assume a share of automobile insurance underwritten through the Facility Association, which operates insurance pools in several provinces. Such pools are designed to insure higher risk drivers that might otherwise be unable to obtain insurance. The Dominion's share of pool premiums and costs are generally determined in relation to its share of total automobile premiums written by all insurers in each relevant province. Pool premium rates are regulated by provincial governments.

The Dominion's net written automobile insurance premiums are $627,599 (2006 - $644,575), the majority of which are subject to rate regulation. The extent to which net premiums written would have differed in the absence of regulation is not determinable.

Amounts related to premiums subject to rate regulation are accounted for in these consoldiated financial statements in the same manner as amounts related to other premiums.

The Dominion's claims costs are influenced by provincial governments to the extent they pass legislation or regulations that specify the nature and extent of benefits and other requirements that impact claims costs and the settlement process.

22. Guarantees and other contingencies

The Company by-laws provide indemnification to its current and former directors, officers and employees to the extent permitted by law, against liabilities arising from their service to the Company. The broad general nature of these indemnification by-laws does not permit a reasonable estimate of the maximum potential amount of any liability.

In connection with its operations, the Company is from time to time named as a defendant in actions for damages and costs allegedly sustained by plaintiffs. While it is not possible to estimate the outcome of the various proceedings at this time, the Company does not believe that it will incur any material loss or expense in connection with such actions.

In certain cases, the Company would have recourse against third parties with respect to the foregoing items and the Company also maintains insurance policies that may provide coverage against certain of these items.

23. Related party transactions

In the normal course of business, the Company enters into transactions with investees involving administration services. These transactions are made on the same basis and terms as with unrelated parties, and are recorded at exchange amounts.

The Company's investments in common and preferred stock include $520,134 (2006 - $520,022) of investments in entities that can be significantly influenced by a party that can significantly influence the Company. Included in investment and other income in the consolidated statements of income are cash dividends from these companies amounting to $10,718 (2006 - $8,427).

24. Comparative information

Certain comparative information has been reclassified to conform to the basis of presentation adopted in the current year.

Summary of Consolidated Results

(all dollar figures expressed in thousands except per share amounts)

(Unaudited)

	2007	2006	2005	2004	2003
Premium income	$ 1,630,208	$ 1,628,870	$ 1,600,708	$ 1,543,086	$ 1,358,119
Gain (loss) on sale of investments	—	73,289	36,356	17,013	(13,394)
Amortization of investment gains	—	61,967	51,795	43,972	32,662
Income (loss) from equity method investment	(20,119)	56,850	52,432	27,635	15,196
Change in unrealized appreciation of portfolio investments	—	124,951	132,094	64,543	49,257
Change in fair value of held for trading investments	(83,317)	—	—	—	—
Realized gain on held for trading investments	65,916	—	—	—	—
Realized gain on available for sale investments	175,397	—	—	—	—
Investment and other income	394,861	374,867	327,806	285,688	272,542
Total revenues	2,162,946	2,320,794	2,201,191	1,981,937	1,714,382
Claims and policy benefits	1,273,824	1,220,550	1,194,593	1,219,167	1,155,977
Expenses (including commissions)	561,914	527,023	497,423	447,185	397,939
Taxes	109,410	167,573	165,464	96,264	60,010
	217,798	405,648	343,711	219,321	100,456
Policyholders' and minority shareholders' portion of income	7,110	33,128	50,008	9,126	771
Net income	$ 210,688	$ 372,520	$ 293,703	$ 210,195	$ 99,685
Net income per share - basic	$ 60.29	$ 109.97	$ 86.68	$ 62.67	$ 29.88

	2007	2006	2005	2004	2003
Assets					
Cash and cash equivalents	$ 364,785	$ 219,400	$ 318,183	$ 269,407	$ 207,196
Equity method investment	309,861	331,698	271,712	190,934	144,758
Portfolio investments	1,097,886	1,026,175	1,085,173	651,659	503,852
Investments - insurance operations	5,687,639	4,983,381	4,422,214	4,048,984	3,693,661
Reinsurance recoverable	199,957	183,598	249,836	197,136	185,640
Premiums receivable	259,894	258,004	258,779	258,636	248,974
Other assets	320,966	356,356	349,287	390,659	334,101
	8,240,988	7,358,612	6,955,184	6,007,415	5,318,182
Segregated funds	4,594,300	3,847,800	2,875,800	2,233,635	1,962,860
	$12,835,288	$11,206,412	$ 9,830,984	$ 8,241,050	$ 7,281,042
Liabilities					
Policy liabilities	$ 5,050,514	$ 4,271,352	$ 4,097,529	$ 3,813,098	$ 3,494,129
Other liabilities	303,589	549,371	575,857	427,738	366,586
Policyholders' and minority shareholders' interest	186,439	140,168	366,128	114,750	107,660
	5,540,542	4,960,891	5,039,514	4,355,586	3,968,375
Capital stock	272,388	272,388	150,887	172,388	7,892
Retained earnings	2,399,714	2,125,333	1,764,783	1,479,441	1,341,915
Accumulated other comprehensive income	28,344	—	—	—	—
	2,700,446	2,397,721	1,915,670	1,651,829	1,349,807
	8,240,988	7,358,612	6,955,184	6,007,415	5,318,182
Segregated funds	4,594,300	3,847,800	2,875,800	2,233,635	1,962,860
	$12,835,288	$11,206,412	$ 9,830,984	$ 8,241,050	$ 7,281,042

Summary of General Insurance Operations

(all dollar figures expressed in thousands)

(Unaudited)

	2007	2006	2005	2004	2003
Premium income	$ 998,882	$ 1,026,997	$ 1,062,156	$ 1,071,274	$ 914,844
Other income	12,921	13,888	13,754	12,630	11,317
Claims	(714,655)	(644,017)	(645,448)	(727,252)	(663,053)
Operating expenditures including commissions and premium taxes	(312,873)	(316,512)	(319,101)	(312,060)	(269,106)
Underwriting income (loss)	(15,725)	80,356	111,361	44,592	(5,998)
Realized gain on available for sale investments	120,361	—	—	—	—
Gain (loss) on sale of investments	—	55,924	25,080	15,647	(15,823)
Investment income	82,678	77,578	67,274	59,065	52,560
Income before taxes	187,314	213,858	203,715	119,304	30,739
Income taxes	42,725	64,335	64,519	35,613	10,467
Net income	$ 144,589	$ 149,523	$ 139,196	$ 83,691	$ 20,272
Claims ratio (to net premiums earned)	71.5%	62.7%	60.8%	67.9%	72.5%
Expense ratio (to net premiums earned)	31.4%	30.8%	30.0%	29.1%	29.4%
Combined ratio	102.9%	93.5%	90.8%	97.0%	101.9%
Gross premiums written					
Automobile	$ 633,082	$ 649,637	$ 659,961	$ 703,521	$ 675,869
Property	315,356	317,839	328,256	330,635	306,958
Casualty	90,719	91,250	92,318	91,687	80,001
	$ 1,039,157	$ 1,058,726	$ 1,080,535	$ 1,125,843	$ 1,062,828
Assets	$ 2,817,289	$ 2,629,599	$ 2,516,012	$ 2,244,990	$ 1,923,076

Summary of Life Insurance Operations

(all dollar figures expressed in thousands)

(Unaudited)

	2007	2006	2005	2004	2003
Premium income	$ 631,326	$ 601,873	$ 538,552	$ 471,812	$ 443,275
Amortization of investment gains	—	61,967	51,795	43,972	32,662
Change in fair value of held for trading investments	(84,349)	—	—	—	—
Realized gain on held for trading investments	61,834	—	—	—	—
Realized gain on available for sale investments	38,878	—	—	—	—
Investment and other income	269,863	258,837	220,566	194,730	192,952
	917,552	922,677	810,913	710,514	668,889
Policy benefits	559,169	576,533	549,145	491,915	492,924
Expenses and commissions	278,671	241,089	209,747	165,933	156,247
Taxes	29,000	42,901	16,557	15,625	4,810
Profits allocated to policyholders	(4,035)	4,687	4,832	1,991	(2,843)
Profits to minority shareholders	11,145	11,699	6,236	7,135	3,614
Net contribution to E-L	$ 43,602	$ 45,768	$ 24,396	$ 27,915	$ 14,137
Premium income by line					
Individual:					
Insurance	$ 272,859	$ 243,153	$ 209,802	$ 182,706	$ 162,235
Annuities	87,281	116,774	104,499	86,574	102,487
Health	13,569	11,826	10,165	8,362	6,885
	373,709	371,753	324,466	277,642	271,607
Group:					
Insurance	23,002	20,724	19,535	17,515	16,668
Annuities	3,802	3,651	4,969	3,498	3,450
Health	230,813	205,745	189,582	173,157	151,550
	257,617	230,120	214,086	194,170	171,668
	$ 631,326	$ 601,873	$ 538,552	$ 471,812	$ 443,275
Assets, including segregated funds	$ 8,449,823	$ 7,096,748	$ 5,826,121	$ 5,049,120	$ 4,589,363

Summary of Financial Progress Since the Company's Inception

(all dollar figures expressed in thousands except per share amounts)

(Unaudited)

Year Ending December 31	Total Assets	Net Premiums	Total Revenues	Net Shareholders' Equity	Net Income	Net Income Per Share-Basic
1969	$ 161,787	$ 41,256	$ 49,966	$ 21,447	$ 2,032	$ .58
1970	178,204	48,024	57,637	24,656	2,607	.75
1971	192,863	52,386	62,985	27,007	2,504	.72
1972	212,319	57,570	69,404	30,824	4,352	1.25
1973	234,926	67,732	81,221	34,707	4,278	1.22
1974	257,732	76,487	92,117	37,155	2,118	.60
1975	282,000	88,314	105,793	39,741	2,990	.85
1976	323,131	111,484	131,560	45,824	6,375	1.82
1977	376,428	134,419	158,446	55,047	9,970	2.86
1978	450,606	150,607	179,995	70,323	7,252	2.08
1979	487,206	147,330	181,869	82,604	13,084	3.26
1980	536,926	164,708	204,357	97,422	11,300	2.81
1981	585,110	195,967	242,631	92,162	(1,860)	(.46)
1982	630,645	218,042	273,265	100,691	8,662	2.15
1983	706,425	219,067	281,979	129,134	28,464	7.08
1984	777,270	230,445	300,345	150,766	26,954	6.71
1985	1,118,141	356,232	441,180	140,111	(9,671)	(2.41)
1986	1,400,171	435,795	537,969	154,593	18,436	4.59
1987	1,545,769	480,742	602,617	187,455	21,846	5.44
1988	1,666,086	477,787	610,928	222,944	36,097	8.98
1989	1,832,250	547,353	696,924	256,575	40,258	10.01
1990	1,928,160	568,217	727,841	255,463	7,208	1.80
1991	2,341,396	667,477	820,109	276,464	31,725	7.89
1992	2,783,297	737,292	933,083	322,706	18,700	4.65
1993	2,944,319	706,822	914,718	362,925	41,619	10.36
1994	3,029,425	637,915	812,062	402,734	41,055	10.21
1995	3,052,601	723,330	900,179	443,953	43,555	10.83
1996	3,598,443	766,606	964,533	498,320	57,814	14.38
1997	5,130,087	805,187	1,135,463	667,634	166,386	41.39
1998	5,522,285	822,513	1,109,457	951,114	57,165	14.22
1999	5,756,343	875,594	1,185,846	1,001,548	52,599	13.09
2000	6,253,408	918,065	1,267,189	1,139,691	73,389	18.26
2001	6,385,555	966,826	1,306,988	1,250,974	77,480	19.27
2002	6,433,194	1,107,295	1,380,163	1,267,385	51,512	12.81
2003	7,308,559	1,358,119	1,652,951	1,375,394	46,870	11.66
2004	8,279,929	1,543,086	1,893,119	1,682,143	129,886	31.91
2005	9,830,984	1,600,708	2,201,191	1,915,670	293,703	86.68
2006	11,206,412	1,628,870	2,320,794	2,397,721	372,520	109.97
2007	12,835,288	1,630,208	2,162,946	2,700,446	210,688	60.29

This chart is drawn from the individual annual reports and therefore has not been restated for any subsequent changes in accounting policies.

Note: 1985 - The Canadian Indemnity Company was acquired
1986 - Montreal Life Insurance Company was acquired
1991 - Canadian operations of SAFECO Corporation were acquired
1997 - Colonia Life Insurance Company was acquired
- Investment in National Trustco Inc. was sold
1998 - E-L Financial's Corporate Investments were recorded at market value versus cost basis
2005 - Changes in fair value of E-L Financial's Corporate Investments are recognized in income in the period in which the change occurs

THE DOMINION
of Canada General Insurance Company

Corporate Management

President and
Chief Executive Officer
GEORGE L. COOKE

Vice-President and
Chief Information Officer
JANET E. BABCOCK

Vice-President
and Chief Actuary
NATHALIE BÉGIN

Vice-President
Head Office Operations
JERRY DALLA CORTE

Vice-President
Field Operations
ALAN J. HANKS

Senior Vice-President
and Chief Financial Officer
R. DOUG HOGAN

Vice-President
Claims Operations
NORA P. HOHMAN

Vice-President
Chief Compliance Officer and Corporate Secretary
WENDY E. MILLS

Senior Vice-President
BRIGID MURPHY

Vice-President and General Counsel
KATHLEEN A. NICCOLS

Vice-President, Human Resources
SHELLY A. RAE

Vice-President
Underwriting and Claims, Head Office
STEVEN WHITELAW

Empire Life

Corporate Management

President and
Chief Executive Officer
DOUGLAS G. HOGEBOOM

Vice-President
Legal and Corporate Secretary
ANNE E. BUTLER

Vice-President and
Chief Investment Officer
DEBORAH K. FRAME

Vice-President
and Actuary
J. EDWARD GIBSON

Executive Vice-President
LESLIE C. HERR

Vice-President
Human Resources and Community Relations
TIMO J. HYTONEN

Vice-President
and Controller
GARY J. McCABE

Vice-President
Information Systems, Technology and Services
WENDY R. M. MERKLEY

Vice-President
Group Products
STEVE S. PONG

Senior Vice-President
Corporate
MICHAEL C. SCHNEIDER

CORPORATE INFORMATION

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AUDITORS	Deloitte & Touche LLP, Toronto
TRANSFER AGENT AND REGISTRAR	Computershare Investor Services Inc. 100 University Avenue, 9th Floor Toronto, Ontario M5J 2Y1 Telephone: 416-981-9633 Toll Free: 1-800-564-6253

STOCK EXCHANGE LISTINGS

Common Shares	ELF
First Preference Shares, Series 1	ELF.PR.F
First Preference Shares, Series 2	ELF.PR.G

REPORTING PROCEDURE FOR ACCOUNTING AND AUDITING MATTERS

If you have a complaint regarding accounting, internal controls or auditing matters or a concern regarding questionable accounting or auditing matters, you should submit your written complaint or concern to:

Mr. Douglas Townsend
E-L Financial Corporation Limited
165 University Avenue, 10th Floor
Toronto, Ontario
M5H 3B8
Email: auditchair@tkactuarial.ca
Phone: 613-384-0884

You may submit your complaint or concern anonymously. Your submission will be kept confidential and will be treated in accordance with the Company's policy for reporting accounting or auditing matters.